



August 6, 2002

President and Chief Executive Officer
Federal Home Loan Bank

NO-ACTION LETTER: Prepayment Fee Waiver Pertaining to Housing Corporation
(2002-NAL-06)

Dear Mr. :

I am in receipt of your letter of July 2, 2002 to the Federal Housing Finance Board (Finance Board) in which you requested a no-action letter from the Finance Board in connection with a recent prepayment made by the Housing Corporation (HC) to the Federal Home Loan Bank (Bank).

We understand the business imperative faced by the Bank with respect to the HC exposure. We also understand the importance the Bank places on restructuring the HC debt to preserve the long-term value of the debt and the full and orderly repayment of principal. In light of the difficulties represented in restructuring and shoring up the credit, we can appreciate the circumstances under which the Bank agreed to the prepayment fee waiver.

While waiver of the prepayment fee may be appropriate on prudential grounds, the Finance Board's regulation (12 C.F.R. § 950.6(b)) states that a prepayment fee only may be waived "if such prepayment will not result in an economic loss to the bank." The regulation is not written to permit a Federal Home Loan Bank to consider its business preferences alone when faced with a decision to restructure its debt. Furthermore, Finance Board regulations (12 C.F.R. § 907.4(a)) state that Finance Board staff may issue a no-action letter stating that staff will not recommend supervisory or other action to the Board of Directors ... "if a requester undertakes a *proposed* (emphasis added) transaction or activity." In light of these regulations, communication with the Finance Board before granting the waiver would have been appropriate.

As was explained in a meeting with Bank officials on July 18, 2002, Finance Board staff will not propose any action against the Bank for its prepayment fee waiver with respect to the HC advance. This decision may be modified or superceded by the Board of Directors. In the future, however, if the Bank should request a no-action letter from the Finance Board, that request should be submitted prior to engaging in an otherwise impermissible activity.

Sincerely,

/s/ James L. Bothwell

James L. Bothwell
Managing Director