



FEDERAL HOUSING FINANCE BOARD

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November 10, 2005

Mr. Terry Smith
President and Chief Executive Officer
Federal Home Loan Bank of Dallas
8500 Freeport Parkway South, Suite 100
Irving, Texas 75063-2547

NO-ACTION LETTER: Federal Home Loan Bank of Dallas: Transactions to Accommodate Members and Housing Associates Affected by Hurricane Katrina (2005-NAL-02)

Dear Mr. Smith:

By letter dated September 20, 2005, the Federal Home Loan Bank of Dallas (Bank) requested that the Office of Supervision (OS) issue a No-Action Letter pursuant to 12 C.F.R. §§ 907.4 and 907.6 of the Federal Housing Finance Board (Finance Board) regulations. The Bank seeks a No-Action Letter for instances in which the Bank does not comply with statutory or regulatory requirements or Bank staff is unable to execute controls required by Bank policy in order to execute transactions to assist members and state housing finance agencies that have been adversely affected by Hurricane Katrina.

Your September 20th letter outlines, among other things, steps the Bank will take regarding advances, demand accounts, and collateral in order to accommodate the needs of members and housing associates in dealing with the special circumstances caused by Hurricane Katrina. Those steps appear to be reasonable in this special circumstance, and we will not take or recommend supervisory action so long as the Bank follows the procedures outlined in items 4.a. through 4.i. (*Transactions or Activities to Accommodate the Needs of Members*) in your September 20th letter. We will, of course, test that the Bank adhered to those procedures and expect that the Bank's Internal Audit Department will also be testing for adherence.

The Bank's decisions to relax internal controls and policies described in item 4.j. of your September 20th letter creates a different circumstance. That item seeks no action relief if the Bank's failure to follow established policies, procedures, and practices is viewed by us as an unsafe or unsound practice. We fully understand and appreciate the exigencies resulting from the disaster created by Hurricane Katrina. We also understand that established policies, procedures, and practices must be relaxed in order to deal with those exigencies and we are prepared to accommodate that relaxation. Relaxation of policies, procedures, and practices must, however, stop short of being unsafe and unsound. There is no public benefit served by dealing

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with a financial emergency by creating the potential for a second one. I assure you that we will take the special circumstances and needs surrounding Hurricane Katrina into account when reviewing the Bank's actions to deal with that disaster. I also assure you that we understand that there is no purpose served by us being unreasonable in assessing the Bank's response. We applaud the Bank for seeking and finding ways to deal with member and housing associate needs. The Bank must also find and establish mitigating controls to limit its exposure to loss in its attempt to assist members affected by the disaster created by Hurricane Katrina.

The no-action relief granted in this letter speaks only to items 4.a. through 4.j. in your September 20th letter, covers the period August 29, 2005 forward, and is limited to actions the Bank takes in response to Hurricane Katrina. We are still reviewing the action requested by you with respect to Transactions or Activities to Accommodate the Needs of AHP Projects in that request letter.

If you have any questions, please contact Portfolio Manager Michael J. Powers at 202-408-2534.

Sincerely,

/s/ Stephen M. Cross

Stephen M. Cross
Director
Office of Supervision

cc: FHF Board and Assistants
John Kennedy
Neil Crowley
Michael Powers
Julie Humphrey
Tom Jennings