FEDERAL HOME LOAN BANK OF DALLAS

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April 28, 2009

By Electronic Mail to: RegComments@fhfa.gov

Mr. Alfred M. Pollard,
General Counsel
Mr. Christopher T. Curtis,
Sr. Deputy General Counsel and Managing Counsel
Attention: Comments / Securitization Study
Federal Housing Finance Agency
Fourth Floor
1700 G Street, N.W.
Washington, DC 20552

RE: Comments / Securitization Study

Dear Messrs. Pollard and Curtis:

The Federal Home Loan Bank of Dallas (Dallas Bank) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA's) Notice of Concept Release (the Concept Release) regarding the FHFA's Study of Securitization of Acquired Member Assets.

Although the Dallas Bank has not been a particularly active participant in the Acquired Member Asset (AMA) programs, it did facilitate its members' participation in the Mortgage Partnership Finance® (MPF®) Program from 1998 through 2008. Although the AMA programs have not been a major strategic focus for the Dallas Bank, access to that program did provide a valuable alternative for a segment of our members.

The Dallas Bank is neither necessarily in favor of or opposed to the development of an FHLBank MBS securitization program. In the relatively brief comments on the Concept Release that follow, we have not attempted to respond to all of the questions posed in the Concept Release or to address the more technical aspects of potential FHLBank securitization programs. Rather, our comments focus on concepts and principles that we believe the FHFA and the FHLBanks should consider in the evaluation of any future mortgage securitization programs.

First, however, we would suggest that it may be useful to distinguish between expanding the authorized tools available for FHLBanks to manage existing holdings of AMA assets and the development of any new mortgage securitization programs. Whether or not the FHLBanks ultimately develop a securitization program, we believe the FHLBanks that currently hold AMA assets should have the flexibility to sell those assets to reduce existing interest rate or credit risk or otherwise enhance their financial strength and stability – provided that such sales reduce the selling Bank's overall risk position and are not structured in a way that increases risks to other FHLBanks or extends the FHLBanks' joint and several liability for consolidated obligations to other categories of direct or contingent obligations.

With regard to development of new mortgage securitization programs, the Dallas Bank believes it is impossible to determine the extent to which any particular securitization program or structure would be economically viable until more is known about the future structure of and regulatory framework for the mortgage market and, in particular, the direct role of the government and the role of Fannie Mae and Freddie Mac or their successors in that market.

In the meantime, however, it may be useful to identify some concepts and principles that could guide future deliberations. To that end, the Dallas Bank offers the following observations, concepts and suggested principles.

1. The FHLBanks have a long track record of success performing their primary, traditional role of supporting local credit markets by providing short term liquidity and longer term funding to their financial institution members. A notable example has been their ability to provide liquidity to the industry throughout the ongoing credit crisis that began in the third quarter of 2007. Any securitization program should be carefully designed not to detract from the FHLBanks' ability to continue to serve their primary role of making advances to members.

2. Any securitization program developed by the FHLBanks should take into account the unique cooperative nature and capital structure of the FHLBanks, and should be developed in the broader context of providing support for rebuilding a vibrant mortgage market with responsible underwriting standards as the economy emerges from the current recession.

3. The FHLBanks and their network of more than 8,000 member financial institutions in communities throughout the country represent a valuable collective resource that should be well positioned to provide meaningful support to the redevelopment of the mortgage market. While a securitization program may contribute to that objective, the best way to deploy those resources will not be entirely clear until the future structure of and regulatory framework for the mortgage market and the role of the government and other government sponsored enterprises in that market becomes clearer.

4. Any program that involves the FHLBanks and their member institutions to support the redevelopment of the mortgage market should take advantage of and build on the demonstrated strengths of the respective parties. The FHLBanks' strengths include their cooperative structure, ready access to funding, and experience managing credit and collateral relationships with their members. Members, on the other hand, have the capacity to originate high quality loans and manage credit risk and customer relationships in their communities.

5. The AMA programs have demonstrated that members can originate high credit quality mortgage loans – and high quality mortgage loans will be a valuable commodity as the mortgage market reemerges. While the AMA experience may be valuable in designing future mortgage loan products, other structures for lenders to retain a portion of the credit risk in mortgage loans they originate are also likely to develop, through legislative action or otherwise, as the regulatory framework for and structure of the mortgage market become clearer. Only then can the FHLBanks determine whether the AMA model would represent a viable, competitive structure for securitized loans.

6. The particular member credit risk sharing feature embedded in current AMA programs likely has more value to the FHLBanks than to third-party investors because the FHLBanks already have credit and collateral pledging relationship with their member institutions. This suggests that building that feature into a mortgage securitization program would be most successful if a participating FHLBank guarantees a corresponding level of credit performance of the securitized loans and looks to its members to be made whole. As outstanding loan volume grows, however, that arrangement may ultimately limit those members' collateral capacity, which could in turn limit their ability to borrow from their FHLBank.

7. The market acceptance of any such FHLBank guarantee would be enhanced by (and might require to be successful) the equivalent of a joint and several guarantee by all (or a large majority of) the FHLBanks. Any extension of the FHLBanks' joint and several liability for Consolidated Obligations to guarantees of mortgage-backed securities should not be imposed involuntarily on other FHLBanks, must be carefully structured to ensure the risk is fairly distributed and is adequately supported by capital provided by the FHLBank with the primary guarantee obligation, and the FHLBanks that are relatively less active in such a program are adequately compensated for any additional risk they assume.

8. To ensure the FHLBanks' primary advances business is not jeopardized by a securitization program, it might make sense to consider whether there is a way to perform the securitization business through an entity separate from the FHLBanks themselves.

9. In order to limit the FHLBanks' future risk, consideration should also be given to strictly limiting any securitization program to the activities necessary to accumulate loans and issue securities and minimizing the extent to which assets are held on a FHLBank's balance sheet.

Thank you again for the opportunity to comment on the Concept Release. Please do not hesitate to contact me if you have any questions about the comments provided in this letter.

Sincerely,

Terry Smith
President and CEO