

October 20, 1999

Ms. Anne E. Dewey
General Counsel
Office of General Counsel
Office of Federal Housing
Enterprise Oversight
1700 G Street, N.W.
Fourth Floor
Washington, D.C. 20552

Dear Ms. Dewey:

This letter addresses the Office of Federal Housing Enterprise Oversight's ("OFHEO") request for comments on the proposed rule regarding "Risk-Based Capital" published in the Federal Register on April 13, 1999 ("Proposed Rule"). The Federal Home Loan Bank of Chicago ("Bank") welcomes the opportunity to comment on this Proposed Rule.

The Proposed Rule sets forth the risk-based capital stress test that will determine the amount of capital the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") would be required to hold to maintain positive capital throughout a ten year period of economic stress. The Bank has reviewed the results of the proposed stress test and finds they are consistent with the Bank's own analysis of the credit risk of residential mortgages.

In analyzing the credit risk associated with mortgage loans for the Bank's Mortgage Partnership Finance[®] Program, the Bank performed numerous studies that examined the historical losses associated with mortgage loans. Please see the following attached charts:

- (1) Distribution of One-Year Net Charge-Off Ratios Fannie Mae and Freddie Mac 1975-1998 Mortgage Credit Quality;
- (2) Distribution of One-Year Net Charge-Off Ratios Active U.S. Thrifts by Institution from 1994-1998 Nationwide Data-Middle 90% of Average Loss Distribution; and

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(3) Distribution of One-Year Net Charge-Off Ratios Linear
Combination of Agency and Thrift Loss Experience Best
MPF Proxy.

These models demonstrate that residential mortgage loan portfolios generally are of high quality and suffer low losses, with mean annual credit losses of 0.03% to 0.05%, and annual losses at 5 standard deviations over mean in the range of 0.23% to 0.46%. Our analysis thus suggests that the capital required for the credit risk of mortgage loans, estimated by OFHEO at about .47%, is reasonable and consistent with experience in the U.S. market.

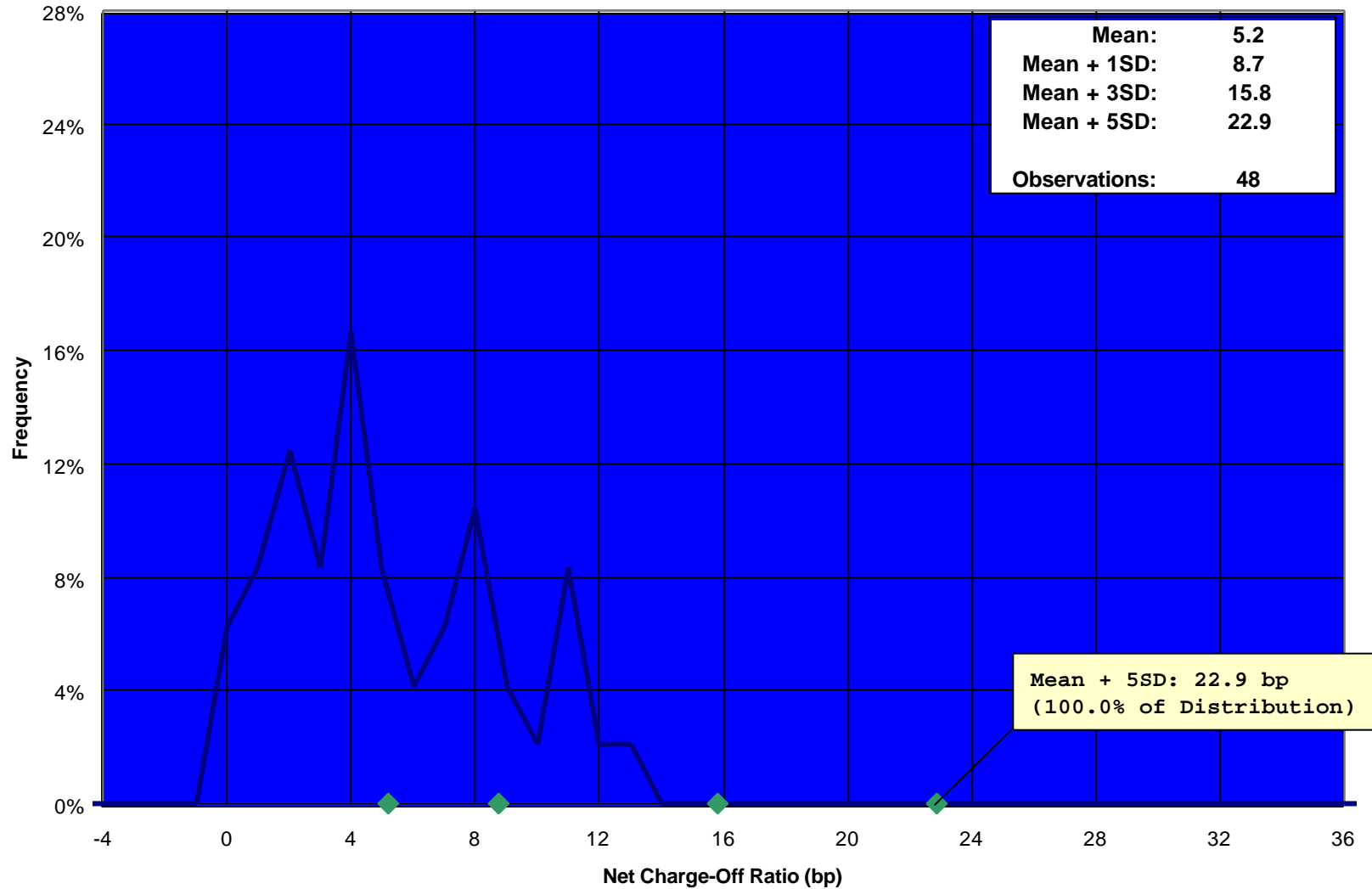
Thank you for the opportunity to comment on this proposal.

Sincerely,

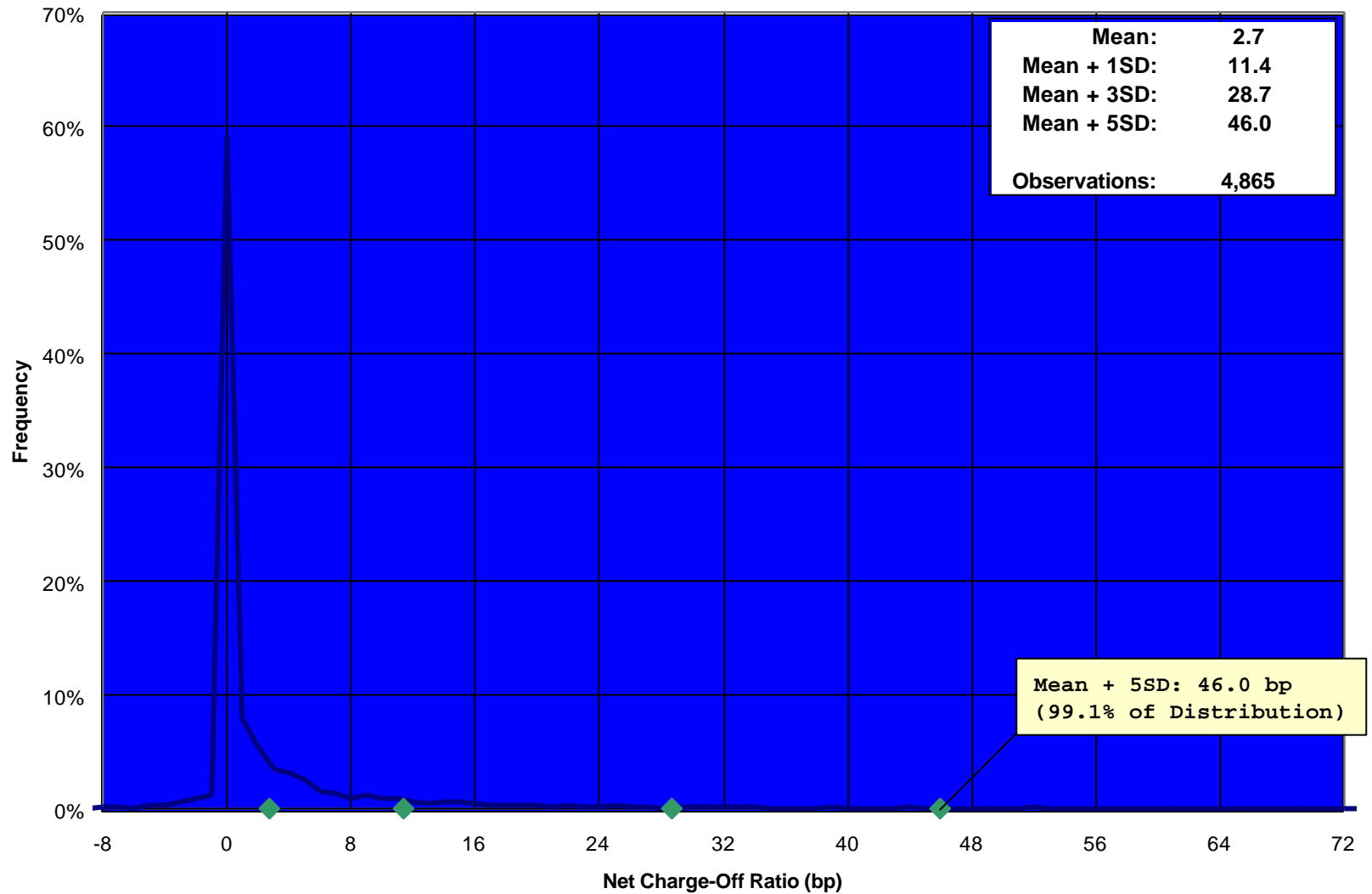
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Peter E. Gutzmer
Senior Vice President,
General Counsel &
Corporate Secretary

**Distribution of One-Year Net Charge-Off Ratios
Fannie Mae and Freddie Mac 1975-1998
Mortgage Credit Quality**



**Distribution of One-Year Net Charge-Off Ratios
Active U.S. Thrifts by Institution from 1994-1998
Nationwide Data - Middle 90% of Average Loss Distribution**



**Distribution of One-Year Net Charge-Off Ratios
Linear Combination of Agency and Thrift Loss Experience
Best MPF Proxy**

