Please note that the comments expressed herein are solely my personal views

Alfred M. Pollard
Federal Housing Finance Agency
Constitution Center
Eighth Floor, 400 Seventh Street, SW
Washington, DC 20024
United States
www.fhfa.gov

Chris Barnard

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- 12 CFR Parts 1267, 1269, and 1270: RIN 2590-AA40
- Removal of References to Credit Ratings in Certain Regulations Governing the Federal Home Loan Banks

Dear Mr. Pollard.

Thank you for giving us the opportunity to comment on your Notice of proposed rulemaking: Removal of References to Credit Ratings in Certain Regulations Governing the Federal Home Loan Banks.

Section 939A of the Dodd-Frank Act requires Federal agencies to review regulations that require the use of an assessment of the credit-worthiness of a security or money market instrument and any references to, or requirements in, such regulations regarding credit ratings issued by credit rating organizations registered with the SEC as nationally recognized statistical rating organizations (NRSROs), and to remove such references or requirements.[1] To implement this provision, you are proposing to remove a number of references and requirements in certain safety and soundness regulations affecting the Federal Home Loan Banks (Banks) and to adopt new provisions that would require the Banks to apply internal analytic standards and criteria to determine the credit quality of a security or obligation, subject to FHFA oversight and review through the examination and supervisory process.

I support your proposals. The proposed definition of Investment quality in § 1267.1 is a more forward-looking, principles-based approach for assessing creditworthiness. It is flexible and adapts to conditions, and will improve regulatory consistency.

[1] Section 939A requires each Federal agency to replace any reference to or requirement of reliance on credit ratings by: "such standard of credit-worthiness as each respective agency shall determine as appropriate for such regulations."

The commentary in the proposals[2] lists some factors that the Banks may consider in evaluating the creditworthiness of a security or other obligation, including:

- internal or external credit risk assessments
- scenario analysis
- security or asset-class related research
- credit analysis of cash flow projections
- credit spreads for like financial instruments
- loss distributions and default rates
- relevant market data e.g. bid-ask spreads and volatility
- local and regional economic conditions
- legal and contractual considerations
- underwriting, performance measures and triggers
- other financial instrument covenants and considerations

This list is fairly complete and provides a sufficient basis for evaluating creditworthiness. It would be preferable for the Banks to rely more on the hard factors, such as credit spreads, internal credit risk assessments, default statistics, legal and contractual considerations, relevant market data, and asset class-specific factors as inputs to their creditworthiness assessments, compared with the softer factors, such as external credit risk assessments and security or asset-class related research, which tend to have a layer of external subjectivity and arbitrariness around them. The Banks should be able to provide a robust and auditable level of assessment on this basis.

Yours sincerely

C.R.B.

Chris Barnard

[2] See 78 FR 30787.