August 19, 2011

Alfred M. Pollard, Esq.
General Counsel
Federal Housing Finance Agency
Fourth Floor
1700 G Street, N.W.
Washington, DC 20552

Re: Comments/RIN 2590-AA13; Prudential Management and Operations Standards

Dear Mr. Pollard:

On behalf of the undersigned Federal Home Loan Banks (each an "FHLBank" and collectively, the "FHLBanks" or "FHLBank System") we appreciate this opportunity to comment on the Federal Housing Finance Agency's (the "FHFA") proposed rule on Prudential Management and Operations Standards (the "Proposed Rule"). We respectfully submit the following comments for your consideration.

Prudential Standards as Guidelines

The FHLBanks are supportive of the FHFA's approach to establishing the prudential standards ("Standards") as guidelines. Unlike many other provisions of the Housing and Economic Recovery Act of 2008 ("HERA"), in Section 1108 Congress specifically authorized the FHFA to establish the Standards as guidelines. By establishing the Standards as guidelines, the FHFA maintains additional discretion as to whether it will require Fannie Mae, Freddie Mac, and the FHLBanks (each a "Regulated Entity" and collectively, the "Regulated Entities") to submit a corrective plan.

The FHLBanks recognize that the FHFA has clear statutory authority to establish the Standards by guideline pursuant to 12 U.S.C. §4513b(b)(1)(A)(ii). We also appreciate the FHFA's need to "timely update the standards to conform them to changes in best practices, as well as to address particular supervisory concerns." However, we request that the FHFA continue to provide the FHLBanks an opportunity to comment on any proposed new or revised Standards prior to their implementation, particularly given the penalties which may be imposed as a result of noncompliance. In furtherance of this request, we ask that Section 1236.3(b) of the regulation be modified to specifically provide for such a comment period prior to any substantive modification of or addition to the Standards.[1]

Potential Conflict with Existing Regulations

The regulations of the FHFA and the Federal Housing Finance Board were created as the result of notice and comment rulemakings pursuant to the Administrative Procedures Act ("APA") and the FHLBanks do not believe the intent of Section 1108 of HERA (or of the FHFA) was to permit the FHFA to supersede or replace its regulations with the Standards. We believe that the proposed regulations can be clarified to further demonstrate APA compliance. On that basis, and

[1] Regardless of whether the FHFA determines to permit comment on any new or revised Standards, the FHFA should not rescind existing regulations and replace them with Standards in the form of guidelines.

also to provide additional clarity in the case of any potential conflicts between the Standards and applicable law and regulations (either now or in the future), we recommend the FHFA include a new Section 1236.3(d) as follows: "In the event of a conflict between the Standards and any other requirement of applicable law, regulation or order, the applicable law, regulation or order shall control."

The FHFA noted in the Supplementary Information that "[a]fter this rule is adopted, FHFA anticipates undertaking a systematic review of existing regulatory requirements that may overlap with these standards." 76 F.R. 35791, 35792 (June 20, 2011). The FHLBanks strongly encourage the FHFA to conduct its systematic review of existing regulatory requirements *before* it finalizes the Proposed Rule and the Standards to ensure there is no overlap or conflict. We believe this approach would be consistent with recent efforts of the FHFA to streamline its regulatory requirements, such as its decision to rescind 27 Advisory Bulletins earlier this year. We commend these streamlining efforts and hope that they continue.

Role of the Board of Directors

The FHLBanks rely on and benefit from strong leadership from their boards of directors. However, we believe that certain of the Standards appear to require the boards of directors to perform management functions that go beyond the traditional board oversight responsibilities. In these cases we request that the FHFA give due consideration to the roles of the boards of directors and management.

Timeframe for Implementation

The Proposed Rule does not include a proposed effective date. Since the Standards include some new requirements that were not previously applicable to the FHLBanks, the FHLBanks request at least one year to ensure compliance with the final rule and the final Standards. We believe one year is an appropriate implementation timeframe given the numerous new requirements and responsibilities imposed on the boards of directors and the FHLBanks. In addition, given the number of individual Standards (133 in total), it will take a significant amount of time to ensure the Standards are assimilated into processes, procedures, systems, etc. at the FHLBanks in order to determine, measure and report on compliance. Moreover, by permitting the implementation to proceed through a normal one-year cycle of regular board activity, the FHLBanks will not have to implement the Standards piecemeal, but instead can implement them in the fuller context of regular board review of the business functions to which the Standards apply.

Similarly, we request that the FHFA establish in the regulation a timeframe in which the FHLBanks will be required to come into compliance with any future changes to the Standards. In establishing such a timeframe, which we believe should be no shorter than 90 days, we ask the FHFA to consider, among all other appropriate factors, balancing the cost, benefit and burden of implementing the proposed changes, the extent to which such changes depart from previous Standards and regulations, the requirements of other applicable agencies' regulations, the impact of such action on the FHLBanks' financial reporting obligations, and resource constraints imposed by concurrent implementation activities for other regulations, including, without limitation, other FHFA regulations and standards.

Definitions - §1236.2

Extraordinary Growth

We appreciate FHFA's recognition of the unique status of advances and the key role the FHLBanks played in providing liquidity to our members in 2007 and 2008. We concur with the FHFA's view that the definition of "extraordinary growth" should exclude the effects of rapid growth in advance assets. We respectfully submit, however, that there are technical problems and asset/liability risk management issues with the definition as drafted in the Proposed Rule.

Based on each FHLBank's analysis of quarterly non-advance asset growth since the first quarter of 2007, we believe that, under the proposed definition:

- 11 out of 12 FHLBanks exceeded the 7.5 percent threshold during 2007 or 2008 and would therefore be deemed to have experienced "extraordinary growth" during that period; and

- 9 out of 12 FHLBanks would, as of the date of this letter, currently be designated as experiencing "extraordinary growth".

We do not believe these results accurately reflect the spirit of the concept of "extraordinary growth."

An additional issue with applying the proposed definition of "extraordinary growth" to the FHLBanks is the self-capitalizing nature of advances cited by the FHFA in the preamble. When advance levels at an FHLBank rapidly grow in a quarter, the borrowing members are required to contribute additional capital to that FHLBank in the form of activity-based stock. When those advances are repaid the FHLBank would then typically invest that extra capital in non-advance assets until the FHLBank determines to repurchase such excess stock. The FHLBanks manage excess stock repurchases prudently consistent with their balance sheet requirements and applicable risk limits. There is typically a lag between a reduction in the level of advances and excess capital stock repurchases. The majority of FHLBanks do not immediately repurchase excess stock upon advance paydowns, which helps minimize member operational burdens. Consequently, members that pay off an advance with the FHLBank but then obtain a new advance within a short period thereafter do not have to purchase additional capital stock. In this way, increases in advance assets can lead to increases in non-advance assets. Such increases do not result from a decision by an FHLBank to expand riskier lines of business; they are merely a result of ongoing fluctuations in the core advance business as members borrow, repay and prepay advances with their FHLBank. The definition of "extraordinary growth" as proposed is not consistent with the advance borrowing/paydown dynamic and the resulting increase in the level of excess stock and non-advance assets.

Furthermore, meeting the credit needs of members and housing associates is a cyclical business. The definition of extraordinary growth should fit the FHLBanks' core business and accommodate sound liquidity management practices. Historical data has shown that cyclical growth in advances has been followed by shrinkage of the advances portfolio as advances are prepaid or paid off at maturity. The resulting cash inflow must be invested in "non-advance" assets until the maturity of the liabilities which generated the cash to fund the advances. In the

case of large advance repayments or prepayments, this may create relatively large, albeit temporary, percentage increases in non-advance assets during the interim period between the repayment or prepayment of advances and the maturity or retirement of the related liabilities.

Events well beyond an FHLBank's control could cause its advances portfolio to shrink and its non-advance assets to increase by an amount well beyond the 7.5 percent proposed threshold for extraordinary growth. Per the Proposed Rule, in some circumstances, this would expose the FHLBanks to potential supervisory sanctions under the Standards and, in other circumstances, to sanctions under the FHFA's other supervisory authorities.

These issues are exacerbated by the Proposed Rule's reliance on a feature from federal banking agency regulation that deems a depository institution to be experiencing "extraordinary growth" if its quarterly asset growth exceeds 7.5 percent in any one of the prior six calendar quarters. *See* 12 C.F.R. §30.4(d)(2). Because the FHLBank System is designed to permit rapid quarterly increases (or decreases) in advance levels in response to member liquidity needs, and because the self-capitalizing nature of those advances may also contribute to rapid proportional quarterly increases (or decreases) in non-advance asset levels, the sole reliance on a quarterly test will cause the FHLBanks to trigger the definition in the normal course of business and more frequently than would institutions that are not designed to accommodate large quarterly changes in asset size. For this reason, we would suggest the definition also incorporate a threshold for the entire 18 month look-back period, in addition to the quarterly test.

Furthermore, we request that the FHLBanks be given an explicit opportunity to rebut a determination of "extraordinary growth" if the growth of non-advance assets is linked to advance or liquidity management activity. Examples that may result in growth of non-advance assets that is linked to advance or liquidity management activity include an increase in capital stock as a result of increased advance demand, advance prepayments and excess capital stock as a result of advance prepayments, replacement of maturing debt prior to its maturity, the issuance of additional debt at the end of one quarter to support anticipated member advance demand at the beginning of the next quarter, and deliberate increases in liquidity in advance of potentially disruptive market events. The recommended changes set forth below would better adapt the concept of "extraordinary growth" to the cyclical nature of the FHLBanks' advances business, avoid frustrating prudent liquidity management and provide flexibility to redeploy liabilities and capital stock no longer required to support advances until they can be reduced in an orderly fashion.

Specifically, we would propose that the FHFA in its final rule modify the definition of "extraordinary growth" to read as follows:

> ***Extraordinary growth,*** **for purposes of 12 U.S.C. 4513b(b)(3)(C), means (a) with respect to a Bank, that the Bank, during the six calendar quarter period preceding the issuance of a written notice requiring the Bank to submit a corrective plan, experienced both (i) quarterly non-annualized growth of non-advance assets in excess of 7.5 percent in any calendar quarter during that period and (ii) annualized growth of non-advance assets in excess of 20 percent for the entire period, provided that a Bank would have an opportunity to rebut the presumption that such growth**

in non-advance assets is not related to advances or liquidity management activity, and (b) with respect to an Enterprise, that the Enterprise, during the six calendar quarter period preceding the issuance of a written notice requiring the Enterprise to submit a corrective plan, experienced quarterly non-annualized growth of assets in excess of 7.5 percent in any calendar quarter during that period. For purposes of calculating an increase in assets, assets acquired through merger or acquisition approved by the FHFA are not to be included.

Regardless of how the FHFA ultimately finalizes the definition of "extraordinary growth," we think it would be constructive for the FHFA to apply the final test to the FHLBanks based on their reported financials[2] and indicate in the preamble to the final rule how many of the FHLBanks would be deemed to meet the definition at the time the final rule is issued.

Growth of Non-Advance Assets

We further request the FHFA define how it will calculate the "growth of non-advance assets." As discussed above, the balance sheets of the FHLBanks are designed to expand and contract with changing market conditions and member demands. An expansion of the balance sheet resulting from an increase in advances may create a corresponding increase in other asset categories, including increased capital from activity-based stock purchases. The funds from those stock purchases may thereafter be invested as permitted by 12 C.F.R. Part 1267. The FHLBanks should not be penalized for investing capital that results from increasing advance balances. Therefore we recommend the FHFA define how it proposes to calculate an FHLBank's growth of non-advance assets, and we propose that such definition should exclude an increase in investments resulting from a growth in advance assets. We would also request that "non-advance assets" be defined to exclude those assets that may be linked to advance activity as discussed above. We further request sufficient opportunity to comment on the proposed definition.

Retroactive Effect of Definition of Extraordinary Growth

Please confirm that the definition of "extraordinary growth" will not be applied retroactively, and that only asset growth occurring on and after the effective date of the final rule will count towards the determination of whether an FHLBank has experienced "extraordinary growth."

Enforcement - §1236.3(c)

The Proposed Rule states that "[f]ailure to meet any Standard may constitute an unsafe and unsound practice for purposes of the enforcement provisions of 12 U.S.C. chapter 46, subchapter III." Because of the breadth and lack of specificity in the Standards, the FHLBanks respectfully request that the FHFA include a safe harbor for good faith efforts to comply with the Standards. Such a safe harbor will support the constructive working relationship among the FHFA and the FHLBanks to refine compliance efforts on an ongoing basis instead of establishing a strict requirement that a failure to meet a Standard constitutes an "unsafe and unsound practice."

The FHLBanks further request that the FHFA include a provision that the FHLBanks will not be penalized for noncompliance due to impossibility resulting from an action, inaction or condition beyond the control of the FHLBank. For example, Standard 9, item 2 requires "appropriate policies and procedures governing derivatives and the use of clearinghouses and exchanges for

[2] All FHLBanks report advances and total assets on a quarterly basis.

derivatives trades." As of the date of this comment letter, neither the Commodity Futures Trading Commission ("CFTC") nor the Securities and Exchange Commission ("SEC") has completed its rulemakings with respect to this area, so it is not yet possible for the FHLBanks to establish such policies and procedures. Additional examples include systemic issues such as ratings downgrades or the fact that no AA supplemental mortgage insurers exist in the marketplace.

Corrective Plans - §1236.4

The Proposed Rule provides that "FHFA may, based upon an examination, inspection or any other information, determine that a regulated entity has failed to meet one or more of the Standards." The FHLBanks believe that there may be instances where the FHFA's determination of an FHLBank's failure to meet one or more of the Standards may fall within the safe harbor provision proposed above, compliance with the Standard may have been impossible due to circumstances beyond an FHLBank's control, or an FHLBank has additional evidence of compliance that has not been considered by the FHFA. Accordingly, the FHLBanks respectfully request that the FHFA incorporate into the final rule a process whereby an FHLBank may file a written response to the determination. Such a process could be modeled on the procedure outlined in proposed §1236.5(c) and (e). We believe giving an FHLBank the ability to respond to a determination before requiring an FHLBank to submit a corrective plan will provide an appropriate forum to (i) explain why the FHLBank believes that the determination is incorrect or based on incorrect information, (ii) provide a recommended modification to the determination, and (iii) submit any other relevant information, mitigating circumstances, documentation or other evidence in support of the position of the FHLBank regarding the determination.

Regardless of whether the FHFA incorporates the FHLBanks' comment above, the FHLBanks request that the FHFA include a provision requiring the notice of failure to meet a Standard to specifically identify in such notice the Standards with which the FHLBank failed to comply and the basis upon which such failure determinations were made. Additionally, we request that any notice of failure to meet a Standard which also includes the requirement to submit a corrective plan include the due date of such submission. We believe the identification of the Standards and the due date for the corrective plan are particularly important if the notice were to be included as part of a report of examination, given that several items may be identified in the report and several drafts of such report may be presented to the FHLBank before the FHFA issues its "final" report.

The FHLBanks also propose removing the requirement in §1236.4(c)(2)(ii) that the FHFA grant permission before an FHLBank may submit a corrective plan as part of another plan, order, agreement or response separately required by the FHFA. We request that such a response be left to the discretion of the individual FHLBanks.

Finally, the FHLBanks request clarification of §1236.4(e) which states the FHFA "will notify the regulated entity that FHFA has established a different deadline." The FHLBanks request clarification to ensure that notice of a different deadline must be provided in writing to the FHLBank by duly authorized FHFA staff.

Failure to Submit a Corrective Plan; Noncompliance - §1236.5

The Proposed Rule establishes penalties for the failure to submit an acceptable corrective plan. We request that the FHFA revise the Proposed Rule to distinguish between non-submission of a corrective plan and a timely good-faith submission that the FHFA ultimately deems to be unacceptable, as we do not believe FHLBanks should be subject to the penalties established in §1236.5 if an FHLBank made a good-faith effort to submit an acceptable plan. In the event such a plan was not accepted by the FHFA, we would further support establishing a process for the FHLBanks to revise and resubmit a corrective plan to the FHFA before the FHFA imposes penalties under §1236.5. The FHLBanks have benefited from collaborative and iterative interactions with the FHFA and its predecessor in developing safe and sound responses to particular business challenges. The FHLBanks wish to continue this productive approach, and believe that this refinement is consistent with the objectives of prudential supervision.

Section 1236.5(a)(1) provides that the FHFA may "[p]rohibit the regulated entity from increasing its average total assets, as defined in 12 U.S.C. §4516(b)(4)…." However, 12 U.S.C. §4516(b)(4) only defines "total assets" for the Enterprises. It appears this discrepancy results from the relevant statutory authority. 12 U.S.C. §4513b(b)(2)(B)(i), which is the basis for the regulatory requirement, permits the Director of the FHFA to "[p]rohibit the *regulated entity*" from taking certain action, whereas the citation to the term "average total assets" in that provision only applies to the Enterprises. Given the conflicting language in the statute, and the mission of the FHLBanks to provide liquidity to their members, it is reasonable that §1236.5(a)(1) should not apply to the FHLBanks. The FHFA recognizes as much in the Supplementary Information, noting that "the Banks' primary mission is providing secured credit to their members and that rapid growth in advances does not necessarily raise supervisory concerns." The FHLBanks should not be prohibited from meeting their statutory mission simply because of a failure to submit an acceptable corrective plan. Therefore, we respectfully request that the FHFA revise §1236.5(a)(1) by replacing "regulated entity" with "Enterprise."

Section 1236.5(c)(1)(ii) requires the FHFA's notice to include "a statement that FHFA believes that the regulated entity has experienced extraordinary growth." The FHLBanks request that the regulation require FHFA to provide the actual numerical analysis to support its belief that an FHLBank has experienced extraordinary growth rather than simply providing a conclusory statement that it believes extraordinary growth has occurred. The FHLBanks further request that the regulation be revised to explicitly permit an FHLBank to rebut the claim of extraordinary growth by providing analysis showing that the growth of non-advance assets was actually linked to advance or liquidity management activities.

Section 1236.5(c)(4) provides that the FHFA may immediately issue a final order without giving an FHLBank the opportunity to file a response. The FHLBanks request that the FHFA specifically identify in the regulation under what circumstances it may immediately issue a final order. Such circumstances may include, for example, an intentional violation of the Standards. The Proposed Rule also only permits an FHLBank to file a written appeal within fourteen (14) calendar days, but thereafter provides the FHFA with sixty (60) days to respond to the appeal. To avoid an unnecessarily lengthy period of uncertainty in which an FHLBank does not know

whether it is in violation, the FHLBanks request that the FHFA respond in writing to a timely filed appeal within thirty days of receiving the appeal.

In addition to the foregoing comments on the Proposed Rule, the FHFA requested comments on the Standards. The FHLBanks respectfully submit the following comments.

Appendix – Prudential Management and Operations Standards

General Comments

Several of the Standards are duplicative of, or conflict with, current regulatory requirements. For example, Standard 1 on Internal Controls and Information Systems is largely duplicative of 12 C.F.R. §917.6 on Internal Control Systems. We urge the FHFA to streamline compliance with its various regulatory requirements by including a cross-reference in the Standards to the applicable regulatory requirement. Such a cross-reference would clarify which provisions are already covered by regulation and which Standards establish new requirements. Additionally, this approach would help ensure consistency between the regulations and the Standards and would reduce the risk of conflicting provisions.

Standard 1 – Internal Controls and Information Systems

- As noted above, we believe certain provisions of this Standard duplicate, and potentially conflict with or go beyond, the provisions of 12 C.F.R. §§917.2, .5 and .6. We recommend this Standard be revised to provide a cross-reference to the relevant regulations and delete provisions that duplicate, conflict with or go beyond current regulations.
- Item 2 requires the board to approve and periodically review the Regulated Entity's "significant policies." Please confirm that "significant policies" are those that are required to be approved by the board pursuant to the FHFA's regulations.
- Item 3 requires the board to approve the organizational structure. We request this item be revised to include a cross-reference to 12 C.F.R. §917.6(b)(7) to ensure consistency between the regulations and the Standards.
- Item 12 requires an FHLBank to monitor internal controls through a formal self-assessment process. For an SEC registrant subject to the Sarbanes-Oxley requirements, a "formal self-assessment" process to satisfy the registrant's monitoring responsibilities is redundant and overly burdensome. We suggest that the requirement to conduct a "formal self-assessment" be deleted.

Standard 2 – Independence and Adequacy of Internal Audit Systems

- Certain provisions of this Standard duplicate, and potentially conflict with or go beyond, the provisions of 12 C.F.R. §917.7. We recommend this Standard be revised to provide a cross-reference to the relevant regulations and delete provisions that duplicate, conflict with or go beyond the current regulations.
- Item 5 should be revised to replace the term "monitoring" with "testing" because "monitoring" implies a scope of work that goes beyond conducting an audit.
- Item 10 requires the internal audit department to "ensure that violations, findings, weaknesses and other issues reported by regulators, external auditors, and others are promptly addressed and satisfactorily resolved." We request that this provision be removed because the internal audit department is not in a position to determine whether

an issue has been "satisfactorily resolved" if it is not the entity that issued the original finding. The ultimate determination of whether an issue has been "satisfactorily resolved" rests with the regulators, external auditors, or others making the initial finding. In the alternative, if Item 10 is not removed, we request that such item be revised to read as follows: "The internal audit department should determine whether violations, findings, weaknesses and other issues reported by regulators, external auditors, and others have been promptly addressed."

Standard 3 – Management of Market Risk Exposure

- Item 11 requires that senior management ensure that policies and procedures identify remedial actions to be taken when market risk limit violations occur. We request that this item be deleted as often remedial action is not something that can be pre-determined.
- Item 12 requires management to regularly review and discuss with the board information regarding the FHLBank's market risk exposures that is sufficient in detail and timeliness to permit the board to understand and assess the performance of management with respect to such risks. Please confirm under this Standard satisfactory monitoring by the board would generally include periodic monitoring of established market risk tolerance limits and exception-based reporting.

Standard 4 – Management of Market Risk – Measurement Systems, Risk Limits, Stress Testing, and Monitoring and Reporting

- Item 3 requires the risk measurement system to be capable of valuing all financial assets and liabilities in an FHLBank's portfolio. We request that the FHFA specifically identify what assets and liabilities will be included by the phrase "all financial assets and liabilities" for purposes of this Standard.

Standard 5 – Adequacy and Maintenance of Liquidity and Reserves

- Item 1 requires the board to approve, at least annually, all major strategies and policies governing the adequacy, maintenance, and management of liquidity and reserves. Current regulations on risk management at 12 C.F.R. §917.3 require the FHLBanks to establish a risk management policy which must include standards for the FHLBank's management of operational liquidity needs and contingency liquidity needs. *See* 12 C.F.R. §917.3(b)(3)(iii). The annual approval of the major policies contemplated in Item 1 is in direct conflict with 12 C.F.R. §917.3(a)(2), which only requires an FHLBank's board to *review* the risk management policy annually and *re-adopt* the risk management policy at least every three years. As we have recommended previously, we request that the FHFA remove any conflicting or duplicate provisions and replace such provisions with references to the appropriate regulatory requirements.

Standard 6 – Management of Asset and Investment Portfolio Growth

- Standard 6 generally requires the board to establish policies to manage asset growth. The public mission of the FHLBanks is to provide secured credit, as needed by their members for both housing finance and liquidity purposes. A growth limit on advances (or other secured product offerings that are similar to advances, such as letters of credit) could hinder the FHLBanks' ability to fulfill their mission of ensuring a source of liquidity at times when such liquidity is not readily available elsewhere in the market, or to fulfill

other statutory objectives for the FHLBanks. Accordingly, we request that the FHFA clarify that this Standard does not require an FHLBank's board to adopt a limit on the growth of advances or letters of credit.

Standard 8 – Overall Risk Management Processes

- We believe certain provisions of this Standard duplicate, and potentially conflict with or go beyond, the provisions of 12 C.F.R. §917.3. We recommend this Standard be revised to provide a cross-reference to the relevant regulations and delete provisions that duplicate, conflict with or go beyond current regulations.

Standard 9 – Management of Credit and Counterparty Risk

- We believe certain provisions of this Standard duplicate, and potentially conflict with or go beyond, the provisions of 12 C.F.R. §917.4. We recommend this Standard be revised to provide a cross-reference to the relevant regulations and delete provisions that duplicate, conflict with or go beyond current regulations.
- Item 2 requires the board and senior management to ensure that the Regulated Entity "has appropriate policies and procedures governing derivatives and the use of clearinghouses and exchanges for derivatives trades." We request that this Standard be suspended pending final resolution of the Dodd-Frank Act rulemakings being undertaken by the CFTC and the SEC in the event the FHFA does not include the FHLBanks' recommendation to include a clause in the final regulation that the FHFA will not take any action against a Regulated Entity for failure to comply with a Standard due to impossibility.
- Item 3 requires the board of directors and senior management to "ensure that the regulated entity has personnel that are appropriately trained and competent to manage credit and counterparty risk, and that they have the necessary tools, procedures, and systems for assessing credit and counterparty risk." We believe this provision is overly broad if it is cast as a primary responsibility of the board of directors. We propose the FHFA revise Item 3 to read as follows: "Senior management, with appropriate oversight from the board of directors, should ensure that personnel managing credit and counterparty risk at the regulated entity are appropriately trained and competent to manage credit and counterparty risk, and that they have the necessary tools, procedures, and systems for assessing credit and counterparty risk."
- Items 4 and 10 refer to problem credits. In the Supplementary Information, the FHFA noted that "the credit risk associated with advances is minimal, as shown by the fact that the Banks have never sustained a credit loss on an advance to their members." Certainly the FHLBanks have robust programs for assessing, monitoring, measuring, and reporting credit risk posed by their secured lending portfolios and the creditworthiness of individual members. Therefore, we request that the FHFA confirm that these items are not intended to require the FHLBanks to adopt new layers of policies or procedures related to the management of credit risk posed by advances or members who receive advances. Just as the FHFA has recognized with respect to the definition of extraordinary growth that advances should be treated separately from non-advance assets, the FHLBanks believe that Standard 9, and specifically Items 4 and 10, should similarly differentiate an FHLBank's advance exposure from its other credit exposure.

- Item 5 requires a Regulated Entity to "have policies that limit concentrations of credit risk and systems to identify concentrations of credit risk." As currently drafted, we view this provision as requiring the FHLBanks to establish policies that place limits on the borrowing capacity of members regardless of whether they have sufficient collateral. The credit risk associated with products provided to members (particularly advances and letters of credit) is minimal, as FHFA has noted. We also note that Congress expressly exempted the FHLBanks from the concentration limits imposed by Section 165(e) of the Dodd-Frank Act. The FHLBanks need the flexibility to expand and contract their advances and letters of credit portfolios in response to the needs of their members. It is not necessary to impose concentration limits on member products because they are fully secured by qualifying collateral; and in fact such limits would hinder the FHLBanks' ability to fulfill their mission.
- Item 11 requires a Regulated Entity to have a "system of independent, ongoing credit review, including stress testing and scenario analysis to identify possible unfavorable events." We request that the FHFA further clarify what it means to have an "independent, ongoing credit review." We also request clarity on what criteria must be evaluated during such credit reviews.

Standard 10 – Maintenance of Adequate Records

- We believe certain provisions of this Standard duplicate, and potentially conflict with or go beyond, the provisions of 12 C.F.R. Part 1235. We recommend this Standard be revised to provide a cross-reference to the relevant regulations and delete provisions that duplicate, conflict with or go beyond current regulations.
- Item 3 requires a Regulated Entity to have a "records management plan." However, 12 C.F.R. §1235.3(a) requires the FHLBanks to establish and maintain a "record retention program." We request clarification that these are the same thing.
- Item 4 requires a Regulated Entity to "conduct a review and approval of the records management plan and records retention schedule for all types of records by the board of directors at least once every two years." However, 12 C.F.R. §1235.3(b) only requires an evaluation by management and that a copy be provided to the board, but does not require that the review/evaluation be approved by the board. Furthermore, the Standard appears to require board approval of the "records management plan" and "records retention schedule" at least every two years, although there is no such requirement contained in 12 C.F.R. Part 1235. Additionally, business-unit-level records retention schedules change rapidly in response to changing business needs or legal requirements, making it utterly impractical to implement a board approval requirement on those schedules. We request the FHFA remove this Standard and instead provide a cross-reference to the relevant regulatory requirements.
- Item 5 requires a Regulated Entity to "ensure that reporting errors or irregularities are detected and corrected in a timely manner." We request further clarification on what types of "errors" or "irregularities" are contemplated by this item.

We thank the FHFA for its consideration of these comments.

Sincerely,

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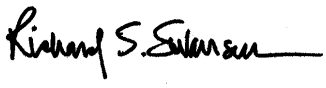

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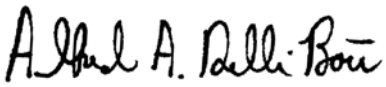

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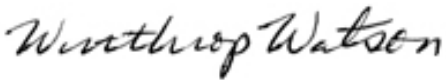

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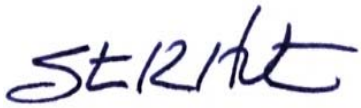
President and Chief Executive Officer

Federal Home Loan Bank of Seattle



Steven R. Horton
Acting President and Chief Executive Officer

Federal Home Loan Bank of Topeka

Andrew J. Jetter
President and Chief Executive Officer