FHLBank
San Francisco

**Dean Schultz**
President and
Chief Executive Officer

April 26, 2010

Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
1700 G Street, N.W., Fourth Floor
Washington, D.C. 20552
Attention: Comments/RIN 2590-AA24

VIA FEDERAL EXPRESS
AND EMAIL

Re: Use of Community Development Loans by Community Financial Institutions to Secure Advances; Secured Lending by FHLBanks to Members and their Affiliates; Transfer of Advances and New Business Activity Regulations

Dear Mr. Pollard,

The Federal Home Loan Bank of San Francisco ("Bank") submits this comment in response to the publication on February 23, 2010 by the Federal Housing Finance Agency ("Finance Agency") of a Notice of Proposed Rulemaking ("Proposed Rule"), which allows CFI members to pledge community development loans as eligible collateral for advances and makes other changes related to the advances regulations. Thank you for the opportunity to comment on this proposal.

The Bank's only comments with respect to the Proposed Rule pertain to new Section 1266.2(e), dealing with secured extensions of credit to members and their affiliates. The Bank is concerned that the scope of Section 1266.2(e) will have adverse consequences for the Federal Home Loan Banks. Although not specifically mentioned in the Proposed Rule itself, the Supplementary Information makes clear that the Finance Agency considers reverse repurchase transactions ("reverse repos") to be a form of secured extension of credit covered by Section 1266.2(e). Because reverse repos represent an important short term investment opportunity and liquidity management tool for the FHLBanks, we believe such transactions with broker-dealer counterparties should be specifically exempt from the scope of the Proposed Rule, regardless of whether or not the broker-dealer is an affiliate of a Bank member.

While we understand the rationale behind this provision – to prevent an FHLBank from indirectly extending credit to a member through an affiliate – the practical effect of Section 1266.2(e) is to preclude the FHLBanks from accessing important segments of the repo market. For example, under the first sentence of Section 1266.2(e), the Bank apparently would be authorized to enter into a reverse repo with its member, JPMorgan Bank & Trust NA, as long as it observes all collateral, capital stock and other requirements associated with making an advance, but under the second sentence of this same section, the Bank would be prohibited from entering into a reverse repo with JP Morgan Securities, Inc., the broker-dealer affiliate of the member and a major player in the repo market. The Bank would similarly be precluded from entering into reverse repo transactions with Bank of America Securities LLC, Merrill Lynch Government Securities Inc., Citigroup Global Markets Inc., BNP Paribas Securities Corp., and Wells Fargo Securities LLC.

These entities are all major players in the repo market. The FHLBanks' access to potential investment counterparties like these should not be cut off simply because they happen to be affiliated with a member. Broad access to the repo market is a primary means of managing the Bank's liquidity, and restricting access to such counterparties could make the repo market less competitive for the Bank and increase its dependence on riskier, unsecured investments. The Bank would not enter into reverse repos with such entities as a means of circumventing the advances requirements that would otherwise apply to their member affiliates. Rather, the Bank enters into these transactions for prudent cash management purposes and would consider these entities as investment counterparties even in the absence of a member affiliate because of their credit quality and importance in the repo market. For this reason, we strongly believe that the Proposed Rule should specifically exclude reverse repos with broker-dealers from the prohibition against entering into secured transactions with affiliates of members.

If, however, the Finance Agency decides to keep reverse repos in the final rule as a type of restricted extension of secured credit, then it should make it clear that the flip side of such a transaction, a repurchase transaction, is ***not*** subject to the Proposed Rule. The Bank's 90-day liquidity planning assumes continued access to the repo market and, because such transactions represent borrowings rather than extensions of credit by the Bank, they should be specifically exempt to avoid any confusion.

Again, we thank you for the opportunity to provide comments on the Proposed Rule and its impact on the FHLBanks.

Very truly yours,

Dean Schultz
President and Chief Executive Officer

cc: L.B. MacMillen
S. Titus-Johnson