



April 9, 2002

Ms. Elaine L. Baker  
Secretary to the Board  
Federal Housing Finance Board  
1777 F Street, N.W.  
Washington, D.C. 20006

Re: Public Hearing on Federal Home Loan Bank Capital Plans

Dear Ms. Baker:

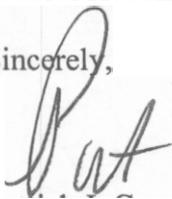
I appreciate the Federal Housing Finance Board taking a leadership role to hold hearings on the Federal Home Loan Banks' proposed capital plans. I would like to comment on two specific issues.

First, I believe that a Home Loan Bank's stock requirement for advances held on its balance sheet should be similar to that same Home Loan Bank's stock requirement for acquired members assets held on its balance sheet, after adjusting for any relevant risk-based capital differences. If a Home Loan Bank does not require members to capitalize the member assets held on its balance sheet, then differences in the capital structures among the Home Loan Banks will diminish the cooperative nature of the Home Loan Bank System and discourage the development of Systemwide products and services that will benefit all members and all Home Loan Banks.

Second, while I believe that the new regulatory guidelines for capital plan value at risk analyses are a dramatic improvement over the traditional 200 basis point rate shock analyses, I think that the new guidelines need to be more flexible and consider practical cost/benefit tradeoffs. We completed our analysis using the mandated 270 scenarios and derived a value at risk that was only 11% higher than the value at risk using 30 sample scenarios. A practical way for the Finance Board to address this result from a cost/benefit perspective would be to provide Home Loan Banks with an option to use fewer scenarios, provided any Home Loan Bank electing this option applies a conservative multiplier to the results. For example, the Finance Board could authorize a Home Loan Bank to use 30 scenarios subject to applying a 1.2 or 1.3 multiplier to the calculated value at risk. Obviously, any multiplier would have to be large enough to provide the Finance Board with the comfort that the cost/benefit tradeoff is reasonable in terms of reducing processing time without loss of estimation accuracy.

I appreciate the opportunity to submit these comments and hope that they will assist the Federal Housing Finance Board in its deliberative process.

Sincerely,

A handwritten signature in black ink, appearing to read "Pat", is written over a light gray rectangular background.

Patrick J. Conway

President and Chief Executive Officer