



Terry Smith
President & CEO

Terry.smith@fhlb.com

April 10, 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:

The Federal Home Loan Bank of Dallas ("Dallas Bank") has chosen not to participate in the Federal Housing Finance Board's ("Finance Board") April 11, 2002 Public Hearing. However, the Dallas Bank does wish to comment on one matter that may be addressed during the hearing -- the "capital sufficiency" provision that the Finance Board has requested be included in our capital plan (and, apparently, in all the FHLBanks' Capital Plans).

Our initial analysis indicates that the proposed capital sufficiency provision would not have a material impact on the Dallas Bank's Capital Plan. Our plan proposes a capital structure very similar to the current structure and does not contemplate reliance on excess stock to meet the Bank's minimum capital requirements. However, we fail to understand the necessity or desirability of the provision, or how it addresses safety and soundness concerns presented by the FHLBanks' capital plans.

The capital sufficiency provision is apparently designed to ensure that an FHLBank maintains adequate capital by restricting an FHLBank's ability to utilize excess stock to capitalize certain longer term assets. However, the statutory and regulatory framework already in place includes leverage and risk-based capital requirements that specify the amount of capital required to support the risks represented by an FHLBank's activities. That framework also includes provisions, reiterated in our proposed Capital Plan, that preclude the Bank from repurchasing or redeeming any capital stock if doing so would cause the Bank to fall below the required levels of capital. In addition, the statutory framework defined by the Gramm-Leach-Bliley Act requires that an FHLBank issue additional capital stock to its members in the unlikely event that it falls below its required capitalization. These provisions are included in our proposed capital plan, and we

Ms. Elaine Baker
April 9, 2002
Page 2

believe that similar provisions are set forth in the other FHLBanks' proposed Capital Plans.

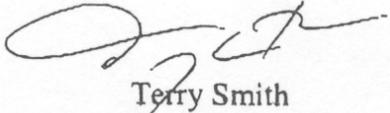
In light of the safeguards already in place, the capital sufficiency provision does not appear to be necessary to ensure that an FHLBank maintains adequate capital. We are concerned that the imposition of such a mechanical test to evaluate capital sufficiency may lead to unintended consequences when an FHLBank operates in different economic circumstances.

If the Finance Board's reason for proposing this provision stems from a concern that member institutions may not realize that their right to redeem excess stock could be restricted under certain circumstances, we submit that the remedy for any potential misunderstanding on this point is simply enhanced disclosure.

Similarly, if the capital sufficiency test is intended to address some other policy rather than safety and soundness issues, there may be a more direct way to address the Finance Board's concerns.

We appreciate this opportunity to present our views.

Sincerely,



Terry Smith

TS/dr