



April 8, 2004

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Docket No. OP-1182

Dear Ms. Johnson:

The Federal Home Loan Banks (FHLBanks) welcome the opportunity to comment on the Board of Governors of the Federal Reserve System (Board) notice of intention to change its Policy Statement of Payments System Risk. We support the Board's objective of reducing its intraday credit risk arising from current practices.

Since 1992, FHLBanks' intraday net debt position in its Principal and Interest account with the Federal Reserve Bank of New York has increased with the growth in our Consolidated Obligations (COs) outstanding, which increased from \$109 billion at year-end 1992 to \$741 billion at year-end 2003. This growth was driven by an increase in member-related assets (advances and mortgage loans) from \$80 billion at year-end 1992 to \$628 billion at year-end 2003. It is through our 8,000+ member financial institutions that these member-related assets support the housing mission of the FHLBanks. The COs that fund these assets are critical to the FHLBanks' support of their housing mission. In addition, the FHLBanks' Affordable Housing Program (AHP) has grown with the growth in assets and has provided \$1.9 billion in housing subsidies since its inception in 1990. AHP subsidies have facilitated development of projects designated to create nearly 400,000 housing units for low- and moderate-income families.

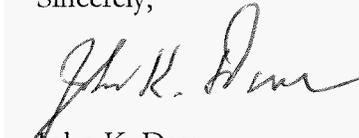
Changing current practices associated with activities that are critical to the FHLBanks' achievement of their housing mission should be done as part of a deliberate and well thought-out plan to avoid unintended consequences. We would like to work with the Board to understand the alternatives that can be pursued to achieve the desired reduction in intraday net debit positions with minimal impact on the capabilities of the FHLBanks to achieve their housing mission. We suggest that the Board form a committee comprised of a cross-section of market and payment system participants, to assist you in studying the impact of the proposed changes before they are implemented, and which could help anticipate, and thus avoid, unintended consequences.

We would certainly support a phased approach to implementing the policy change following a study of the possible market dislocations, which are likely to occur at each stage of the phased-in process. The actions and interactions of all participants affected by this policy change should be understood to ensure a safe and sound transition. For instance, a phased approach might be used to gradually

reduce the amount of time between the Federal Reserve Bank of New York's disbursement of principal and interest, and the deadline for the reimbursement of those funds.

We support and share the Board's objective to reduce payment system risk and would welcome the opportunity to work with the Board to achieve these objectives without adversely affecting the housing market in America.

Sincerely,



John K. Darr
Managing Director