

May 31, 2013

Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

File Reference: 2012-260 Exposure Draft of a Proposed Accounting Standards Update, Financial

Instruments - Credit Losses (825-15)

Dear Ms. Cosper:

The 12 Federal Home Loan Banks (the "FHLBanks") appreciate the opportunity to comment on the Financial Accounting Standards Board's (the "FASB" or "Board") Exposure Draft of a Proposed Accounting Standards Update ("ASU"), *Financial Instruments - Credit Losses (825-15)* (hereinafter referred to as the "proposed Update"). The FHLBanks are government-sponsored enterprises that serve the public by enhancing the availability of credit for residential mortgages and targeted community development. The FHLBanks are financial cooperatives and SEC registrants.

The FHLBanks are supportive of a single impairment model for financial assets. However, we are very concerned that the proposed Update may be interpreted to require that every financial asset have an allowance for expected credit losses. The FHLBanks have significant balances of financial assets for which we have not experienced, and do not expect to experience, a credit loss. Of the most significance are loans (known as advances) issued by the FHLBanks to their members. On a combined basis, the FHLBanks had advances of \$418.3 billion at March 31, 2013, representing 57% of the FHLBanks' total assets. The FHLBanks are required by the FHLBank Act to obtain and maintain sufficient collateral to secure advances. In the FHLBanks' 80-year history, no FHLBank has ever experienced a credit loss on an advance. Over this period, the U.S. has experienced a wide range of economic conditions, including periods of depression, recession, and expansion. Even during the most recent financial crisis, which resulted in the failure of a number of member financial institutions, none of the FHLBanks experienced a credit loss on an advance. Accordingly, we do not expect any credit losses on advances and no FHLBank has ever recorded an allowance for credit losses on its advances. The FHLBanks have also not experienced credit losses on their investments in mortgage loans insured or guaranteed by a U.S. Government agency or their investments in certain high credit quality securities (e.g., certain securities issued or quaranteed by the U.S. Government or an agency thereof). The FHLBanks do not expect to experience credit losses on these assets and accordingly, do not believe that an allowance would be a faithful representation of expected credit losses. Our concerns regarding the application of the proposed Update to highly collateralized and certain high credit quality assets are further discussed in our response to question 11. Our responses to the questions for respondents that are relevant to the FHLBanks are presented below.

#### **Scope**

Question 1: Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

Yes. The FHLBanks agree with the scope of financial assets included in the proposed Update.

### **Recognition and Measurement**

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

No. The FHLBanks agree that all <u>relevant</u> information that can be obtained without undue cost and effort should be considered. Requiring that this information also be reasonable and supportable should limit auditing concerns and constraints.

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

We currently have access to historical loss data and data to update that historical information to reflect current conditions. For certain instruments (e.g., private label mortgage-backed securities ("PLMBS")), we currently estimate credit losses using assumptions that are based on historical data and data that is updated for current conditions and reasonable and supportable forecasts. To assess the reasonableness and support the use of certain assumptions we benchmark the assumptions against available market sources. We believe our current methodology meets the objective of the proposed amendments. For certain other financial assets (i.e., mortgage loans) we currently do not update the historical data for forecasts. While industry data to create forecasts for mortgage loans may be available, because of the unique credit enhancement structures of our mortgage loan programs, such data is not always relevant. Consistent with the proposed guidance in paragraph 825-15-25-3, we believe that entities should consider available information that is relevant. Accordingly, to the extent that relevant data to support forecasts is available, the FHLBanks would be able to update their historical data for reasonable and supportable forecasts.

Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

Yes. The FHLBanks foresee both operability and auditing concerns with the requirement that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. We believe that an estimate of expected credit loss should be an entity's <u>best estimate</u> of cash flows not expected to be collected. Paragraph BC 31 states the Board's belief that all entities will ordinarily expect some level of losses in a group of assets with similar risk characteristics. This has not been our experience. Since the creation of the FHLBanks in 1932, and through a wide range of economic cycles, no FHLBank has ever experienced a credit loss on an advance or an advance commitment. Even during the most recent financial crisis, which resulted in the failure of some member

institutions, none of the FHLBanks experienced a credit loss on an advance. Based on the absence of historical loss experience and the stringent collateral requirements for each advance, no FHLBank expects to experience any level of loss on its advance portfolio. Furthermore, no FHLBank expects to experience any level of loss on certain other assets that are highly collateralized or of high credit quality (e.g., certain securities issued or guaranteed by the U.S. Government or an agency thereof). We believe that other entities would have comparable expectations of such assets.

In addition to requiring that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results, paragraph 825-15-25-5 states that an entity is not required to consider more than two outcomes. This may be interpreted to mean that as long as one outcome results in a loss and one outcome results in no loss, then an entity is not required to consider more outcomes. This interpretation appears supported by the guidance in paragraph 825-15-55-34, which illustrates how an entity weights its estimates of cash flows to reflect both an outcome in which a credit loss results and an outcome in which no credit loss results. Under this interpretation, if an entity considers multiple outcomes, but none results in a credit loss, then the entity is not in compliance with the proposed guidance. Paragraph 825-15-25-5 states:

An estimate of expected credit losses shall neither be a worst-case scenario nor a best-case scenario. Rather, an estimate of expected credit losses shall always reflect both the possibility that a credit loss results and the possibility that no credit loss results. However, a probability-weighted calculation that considers the likelihood of more than two outcomes is not required. An entity is prohibited from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode).

For certain assets (e.g., PLMBS), an entity may perform a discounted cash flow analysis using a base-case scenario and several stress scenarios to estimate credit losses. Under the current guidance, even if none of the scenarios results in a credit loss, an entity may complete its analysis and conclude that a credit loss does not exist. An entity may interpret the second sentence of paragraph 825-15-25-5 to require the entity to continue to apply stress scenarios until a credit loss results, regardless of the improbability of the loss. An entity may then still conclude that a credit loss is not expected. However, the entity will have expended additional valuable resources to achieve the same result. It is our understanding that this is not the Board's intention. Rather, the consideration of projected default rates and loss severities in the development of the expected cash flows is compliant with the above guidance, even when a credit loss is not expected.

Furthermore, the last sentence of paragraph 825-15-25-5 prohibits an entity from estimating expected credit losses based solely on the most likely outcome. Example 1 in the implementation guidance illustrates the use of a Loss-Rate approach to estimate expected credit losses. This methodology applies one expected loss rate to each cohort. We agree that this methodology would implicitly satisfy the requirement that an estimate of expected credit losses reflect both the possibility that a credit loss results and the possibility that no credit loss results. However, it is unclear why an entity would develop an expected loss rate that is not based on the most likely outcome.

For the reasons discussed above, we believe that paragraph 825-15-25-5 should be deleted. If the Board chooses to retain this paragraph, then we suggest the following changes (added text is <u>underlined</u> and deleted text is <u>struck out</u>):

An estimate of expected credit losses shall neither be a worst-case scenario nor a best-case scenario. Rather, an estimate of expected credit losses shall always <u>consider</u> reflect both the possibility that a credit loss <u>exists</u> results and the possibility that no credit loss exists results. However, a probability-weighted calculation that considers the likelihood of more than two <u>scenarios</u> outcomes is not required. An entity is prohibited from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode).

Additionally, paragraph 825-15-55-35 of the proposed Update implies that financial assets that are evaluated on an individual basis do not need to also be evaluated together with other financial assets that have similar characteristics. It is our understanding that evaluation together with other similar assets is not necessary because the individual evaluation considered information that would be applicable to a group of similar financial assets. We believe this should be clearly stated in the guidance, rather than implied in the example in paragraphs 825-15-55-32 through 55-35.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

No. The FHLBanks do not foresee significant operability or auditing concerns or constraints by incorporating the time value of money. Our current methodologies for estimating credit losses either explicitly reflect the time value of money or are consistent with the methods represented as acceptable by the Board.

Additionally, consistent with the Board's view expressed in paragraph BC28, we believe that a credit loss measurement should not reflect changes in market rates of interest. This belief is further supported by the guidance in ASC 325-40-35-9, which states, "Changes in the interest rate of a plain-vanilla, variable-rate beneficial interest generally should not result in the recognition of an other-than-temporary impairment." Because the cash flows of a variable rate instrument (i.e., a loan, mortgage-backed security or other debt instrument) fluctuate with changes in market rates, the expected cash flows change each time the rate is adjusted. To eliminate the effect of changes in market rates on a credit loss measurement, thereby isolating the change in value due to credit loss, the curve that is used to discount expected cash flows should be adjusted consistent with the curve that is used to estimate the cash flows in a discounted cash flow analysis of a variable rate instrument. Otherwise, if the current effective interest rate (i.e., internal rate of return) is lower than the initial effective interest rate, then a loss may be estimated even if all contractual cash flows are expected to be collected.

The definition of effective interest rate in the glossary of the proposed Update does not explicitly prohibit adjusting the effective interest rate for changes in market rates. However, the response to question 17 of the proposed Update Frequently Asked Questions issued by the Board on March 25, 2013, which addresses the appropriate rate for discounting cash flows, states, "The Board decided that the discount rate should not be updated to reflect changes in market rates of interest..." This appears inconsistent with the International Accounting Standards Board's proposal on credit losses issued on March 7, 2013, which states the following in paragraph B2, "For floating-rate financial assets and floating-rate financial liabilities, periodic re-estimation of cash flows to reflect the movements in market rates of interest alters the effective interest rate."

As discussed above, if the discount rate is not updated consistent with the rate used to estimate the cash flows of a variable rate instrument, then a credit loss measurement will reflect changes in market rates of interest. To avoid the recognition of credit losses due to changes in market rates, we suggest that the definition of effective interest rate be revised as follows to clarify that it may be necessary to consider movements in market rates of interest when determining the effective interest rate (added text is <u>underlined</u>):

The rate of return implicit in the debt instrument, that is, the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the debt instrument. For purchased credit-impaired financial assets, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount embedded in the purchase price that is attributable to the acquirer's assessment of expected credit losses at the date of acquisition. For variable rate instruments, it may be necessary to adjust the rate of return to reflect movements in market rates of interest.

Additionally, the Board should consider changes to paragraphs B16, B17 and B28 where the use of the terms "original effective interest rate" and "historical or effective interest rate" imply that it would be inappropriate to adjust the effective interest rate for changes in market rates.

Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

No. The practical expedient should ease the operational burden for entities and auditors should be able to assess an entity's judgments that are based on applicable credit quality indicators. However, we believe the practical expedient is flawed because it presumes that credit losses are expected, albeit insignificant.

The FHLBanks recognize that a financial asset's fair value may be less than its amortized cost basis due to reasons other than expected credit losses (e.g., a change in market rates). As proposed, the practical expedient implies that an entity would be required to recognize a credit loss if the instrument's fair value is below its amortized cost basis. However, if a credit loss is not expected, this would not be appropriate. Accordingly, we suggest the Board consider the following changes to paragraph 825-15-25-2 (added text is underlined and deleted text is struck out):

If both of the following conditions are met as of the reporting date, as a practical expedient, an entity may elect not to <u>estimate recognize</u> expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income:

- a. The fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset.
- b. Expected credit losses on the individual financial asset are <u>non-existent or</u> insignificant, which may be determined by considering the general expectation of the range of expected credit losses given the credit-quality indicator(s) <u>and any credit enhancements</u> for the asset as of the reporting date.

The FHLBanks also suggest that the final Update clearly state that an entity should not recognize an allowance for expected credit losses in excess of any unrealized loss on the fair value of an individual financial asset that is measured at fair value with qualifying changes in fair value recognized in other comprehensive income. It is our understanding that the proposed guidance would require an entity to recognize an allowance equivalent to expected credit losses and to the extent that expected credit losses exceed any unrealized loss, the entity would adjust the net carrying value of the asset to fair value with an offset to the unrealized gain/loss in accumulated other comprehensive income ("AOCI"). The recognition of the offset could change a financial asset from being in an unrealized loss position to being in an unrealized gain position. We do not believe it would be appropriate to characterize this gain as a recovery in the fair value of the asset. Therefore, an entity may be inclined to create an additional component within AOCI that appropriately characterizes the adjustment in order to provide users with the necessary transparency. This introduces unnecessary complexity, both operationally and in the financial statement disclosures. Furthermore, the subsequent sale of an asset for which the recognition of an offset has changed the

financial asset from an unrealized loss position to an unrealized gain position would result in the recognition of this gain. We believe this volatility (i.e., the initial recognition of the credit loss and subsequent recognition of the gain) is unnecessary and does not properly reflect the business model of the instrument.

We believe that an entity's decision to measure a financial asset in a business model that permits the entity to sell the asset should allow the entity to limit any loss recognized to the amount that could be realized if the asset were sold. Accordingly, we suggest the Board consider the following changes to paragraph 825-15-25-1 (added text is underlined):

At each reporting date, an entity shall recognize an allowance for expected credit losses on financial assets within the scope of this Subtopic. Expected credit losses are a current estimate of all contractual cash flows not expected to be collected. For a financial asset measured at fair value with qualifying changes in fair value recognized in other comprehensive income that is assessed on an individual basis, the amount of the allowance shall not exceed any unrealized loss on the fair value of the asset.

Paragraph 825-15-55-4 provides an additional practical expedient for collateral-dependent financial assets. The proposed Update amends the definition of collateral-dependent financial asset from "A loan for which repayment is expected to be provided solely by the underlying collateral" to "A financial asset for which repayment is expected to be provided primarily or substantially through the operation (by the lender) or sale of the collateral...." For collateral-dependent financial assets, the practical expedient permits an entity to use a methodology that compares the amortized cost basis to the fair value of the collateral to determine if a credit loss exists. Because the proposed definition permits an entity to use such a methodology for instruments in which some portion of the repayment may not come from the operation or sale of the underlying collateral, the methodology should explicitly state that other sources of repayment may be considered. For example, an entity may expect repayment to be provided primarily or substantially by the sale of the collateral and any shortfall may be provided through credit enhancements. In determining whether a credit loss exists, the entity should be able to consider the fair value of the collateral, less estimated costs to sell, plus any amounts expected to be provided by the credit enhancements.

Question 15: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

While the proposed amendments will change current practice, it is operationally feasible to place a loan on nonaccrual status when it is not probable that the entity will receive substantially all of the contractual principal or interest. However, many investment accounting systems do not currently have the functionality to place a debt security (e.g., a mortgage-backed security) on nonaccrual status.

The cost-recovery method proposed in paragraph 825-15-25-10(a) may result in a significant amount of interest income being recognized near the maturity of a financial instrument. For a mortgage-backed security, a credit loss is often projected to occur late in the security's life and may significantly decrease prior to the projected default date. For example, an entity may estimate that it will lose a substantial amount of principal near the maturity of a security (e.g., in 15 years), even though it is currently receiving payments of both principal and interest. As proposed, the guidance would require the entity to place the security on nonaccrual status and recognize cash receipts as a reduction of principal. A subsequent decrease in the estimate of expected credit losses would result in a significant amount of interest income being recognized near maturity of the security. As stated in paragraph BC24 of the proposed Update, "the Board recognizes that as the forecast horizon increases, the degree of judgment involved in estimating expected credit losses increases because the availability of detailed estimates for periods far in the future decreases."

Accordingly, as a security approaches maturity, the forecast horizon and the degree of judgment decrease. We do not believe that the degree of judgment should impact the recognition of interest income. Rather, an entity should consider the current payment status of an instrument.

We believe that an entity should place an instrument on nonaccrual status only if it is currently not receiving contractual payments and it does not anticipate receiving contractual payments in the near future. Interest income on nonaccrual financial instruments should be recognized using the cash-basis method as proposed in paragraph 825-15-25-10(b). Additionally, we believe the guidance should be revised to clarify that receipt of substantially all of the cash flows may be through contractual receipts, the sale of collateral, credit enhancements, guarantees, warranties or other means.

Furthermore, we support the proposed "write-off" guidance. We agree that a financial asset (or portion thereof) should not be written off until such time as the entity determines that it has no reasonable expectation of future recovery, whether through the sale of collateral, credit enhancements, guarantees, warranties or other means. We believe that such a determination requires judgment and should be based on the facts and circumstances specific to an asset, rather than applying one "bright-line" to all financial assets.

Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

Yes. The FHLBanks believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant. We agree that a creditor granting an economic concession is attempting to maximize its return. However, while the asset may be viewed as a continuation of the original debt instrument, it has been modified. Accordingly, the yield should be reflective of the modified terms of the agreement.

Even though a modified debt instrument that follows a troubled debt restructuring may be viewed as a continuation of the original debt instrument, a creditor may wish to change the methodology used to determine an allowance for the asset. Paragraph 825-15-55-2 of the implementation guidance states, "an entity has latitude to develop estimation techniques that are applied consistently over time." This may be interpreted to mean that an entity should apply the same estimation technique over the life of an asset. We believe the final Update should clarify that it may be appropriate to change the methodology when certain circumstances change, for example, when a troubled debt restructuring occurs or there is a change in a credit quality indicator.

#### **Disclosures**

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

No. The FHLBanks do not foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update. We already disclose much of the proposed information; however, information system and financial reporting changes will likely be required for other aspects of the proposed Update. See our response to question 24.

## **Implementation Guidance and Illustrations**

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

The proposed Update generally provides sufficient implementation guidance; however, the illustrative examples are primarily for loan portfolios. The Board is proposing one credit loss model for all debt instrument financial assets, including investment securities. Therefore, we believe the final guidance should also include examples illustrating the application of the model to various investment securities and the applicable disclosures. Additionally, the implementation guidance should illustrate how common credit enhancements, such as standard representations and warranties, should be considered in an estimate of expected credit losses.

#### **Transition and Effective Date**

## Question 20: Do you agree with the transition provision in this proposed Update? If not, why?

Yes. The FHLBanks are supportive of the transition provision for a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. However, we believe that the transition guidance should also address the following:

- Currently, public banks present the provision for credit losses related to loans as a separate component within the net interest income section of the income statement (consistent with Article 9 of Regulation S-X) and present other-than-temporary impairment recognized for investment securities as a component of non-interest income or loss. Upon adoption of the final guidance, credit losses for all assets should be presented as a separate component within the net interest income section of the income statement.
- The outstanding balance of the non-credit portion of other-than-temporary impairment recognized in other comprehensive income ("OCI") for held-to-maturity securities should be reclassified from AOCI at the time of adoption and, therefore, accretion is no longer necessary.
- The outstanding balance of the non-credit portion of other-than-temporary impairment recognized in OCI for available-for-sale securities should be reclassified within AOCI as unrealized gain/loss at the time of adoption.
- The requirement to place a financial instrument on nonaccrual status should be applied prospectively. For example, previously other-than-temporarily impaired debt securities should not be placed on nonaccrual status unless, subsequent to adoption, an entity estimates that additional credit losses, which have not been previously recognized in income, are expected.

Additionally, the FHLBanks recommend that the Board provide an example illustrating the application of the transition guidance, including the calculation of the cumulative-effect adjustment, in the final Update.

#### Question 21: Do you agree that early adoption should not be permitted? If not, why?

Yes. In order to promote consistency and comparability among entities, the Board should not permit entities to adopt the provisions of this guidance prior to the mandatory effective date.

# Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

Yes. The transition provision for a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective is operable.

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

The FHLBanks are aware that the Board is considering requiring that the proposed Update and the proposed guidance on the recognition and measurement of financial instruments be effective concurrently. We believe we would need a minimum of two years to concurrently plan for and implement the final ASUs. In developing this estimate, we considered the complexity of the proposed guidance; the potential information system and financial reporting changes that may need to be developed, implemented, and tested prior to adoption of the new guidance; and the time needed to develop and test internal controls.

We thank the Board for its consideration of our views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (412) 288-5123.

Sincerely,

Edward V. Weller

Controller

Federal Home Loan Bank of Pittsburgh

V Mul

(On behalf of the Federal Home Loan Banks as Chair of the Controllers' Committee)