Since 1899

Merchants State Bank

P.O. Box 399
Freeman, South Dakota 57029
Tel. (605) 925-4222   Toll Free 866-228-9747   Fax (605) 925-4836

November 24, 2008

Robert E. Feldman
Executive Secretary
Attention; Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
RE: FDIC RIN# 3064-AD34 Treatment of Certain Claims On, or Guaranteed By, Fannie Mae and Freddie Mac

Office of the Comptroller of the Currency
250 E. Street S.W., Mail Stop 1-5
Washington, D.C. 20219
RE: Docket No. OCC-2008-0016

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th. Street and Constitution Ave., N.W.
Washington, D.C. 20551
RE: Docket No. R-1335

Regulation Comments, Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552
Attention: OTS-2008-0014

This letter is a comment in response to the publication of the federal banking agencies proposed rule to allow a banking organization to assign a 10% risk weight to claims on, and portions of claims guaranteed by, Fannie Mae and Freddie Mac.

Our institution has significant concerns about the proposal. While a reduction in the capital requirement for holding obligations of Fannie Mae and Freddie Mac is welcome, the exclusion of the Federal Home Loan Bank (FHLBs) from the proposed rule is a significant and unfortunate oversight. This rule, if enacted in its current form, may have unintended adverse consequences for the banking system during this time of economic stress.

Since 1899

Merchants State Bank

P.O. Box 399
Freeman, South Dakota 57029
Tel. (605) 925-4222 Toll Free 866-228-9747 Fax (605) 925-4836

Our first concern is that the proposal suggests agencies of the U.S. government do not support the FHLBs and their mission to the same degree as Fannie Mae and Freddie Mac. Such a perception does not make sense for the following reasons. First, Congress created a new regulator to oversee all of the housing GSEs. Second, when the new regulator took control of Fannie Mae and Freddie Mac, the Director of the new regulator remarked that the FHLBs are performing remarkably well and are well capitalized. Third, the Treasury is providing the same temporary backstop funding facility to all of the housing GSEs through the GSE Credit Facility. Finally, the New York Fed is providing support for the FHLBs, as well as Fannie Mae and Freddie Mac, by purchasing their discount notes in recent open market operations.

Despite these actions, investors are demonstrating a preference for Fannie and Freddie obligations. Spreads between FHLB senior debt and comparable bonds issued by Fannie Mae and Freddie Mac have widened by 20 to 30 basis points since these entities were taken over by the new regulator.

Our greatest concern is that this proposal will result in further increases in the cost of advances available from the FHLBs. Thousands of community banks depend upon access to low-cost liquidity from the FHLBs, which allows us to lower home ownerships costs in our communities. I sincerely doubt that the federal banking agencies wish to raise the cost of funds for banks in this troubled market. If investors continue to believe that the obligations of the FHLBs are somehow less creditworthy than those of Fannie Mae and Freddie Mac, they will demand higher yields to purchase FHLB bonds, resulting in higher advance rates during a period when the banking industry is faced with the challenge of supporting housing finance and economic growth under difficult circumstances in the credit markets.

We strongly urge the FDIC, the Comptroller of the Currency, the Board of Governors of Federal Reserve System, and the OTS to treat debt securities of all housing GSEs as comparable with regard to risk-based capital rules. We believe this to be the course of action that achieves the most favorable outcome for all stakeholders in the housing GSEs during this extraordinary time of financial crisis.

Sincerely,

Dean D. Dreessen,
Executive Vice President