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DEPARTMENT OF THE TREASURY
Office of the Comptroller of the Currency
12 CFR Part 3
Docket ID: OCC-2008-0016
RIN 1557-AD18

FEDERAL RESERVE SYSTEM
12 CFR Parts 208 and 225
Regulations H and Y; Docket No. R-1335

FEDERAL DEPOSIT INSURANCE CORPORATION
12 CFR Part 325
RIN 3064-AD34

DEPARTMENT OF THE TREASURY
Office of Thrift Supervision
12 CFR Part 567
No. OTS-2008-0014
RIN 1550-AC24

Minimum Capital Ratios; Capital Adequacy Guidelines; Capital Maintenance; Capital: Treatment of Certain Claims on, or Guaranteed by, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)

DELIVERED VIA EMAIL:
regs.comments@occ.treas.gov
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comments@FDIC.gov

DELIVERED VIA FACSIMILE:
OTS: (202) 906-6518

October 8, 2008

Greetings:

The proposal to reduce the risk weighting from 20 percent to 10 percent for debt holders of Fannie Mae and Freddie Mac will not change the appetite of this bank for debt of either entity. Our bank, along with many others, invested in the preferred stock of both of these GSEs by virtue of the special exemption from the normal limitation on capital and the preferential 20 percent risk weight. Both of these exceptions were unique only to preferred stock of Fannie Mae and Freddie Mac. And the fact that, at the time of issuance, no one had ever taken a loss on a GSE of the United States Government furthered the presumption of a safe harbor for investment in F&F preferred stock.

As of September 30, 2008 the banking industry has written off all but a minute portion of its investment in F&F preferred stock, which totaled approximately $36.2 Billion. The consequent reduction of capital has greatly reduced the ability of these banks to lend. The United States Treasury, on the other hand, has taken a senior position on its subsequently issued preferred stock in F&F to the detriment of all other holders and has taken a 10 percent return on its investment to boot. I say, "Fool me once shame on you. Fool me twice shame on me".

No level of risk weighting will entice me to own one penny of debt issued by F&F unless the U. S. Treasury reverses course and treats its shares of preferred stock equally with that provided by previous holders of F&F preferred shares and reinstates the dividends of all preferred shares or suspends the dividends on the shares held by the U. S. Treasury so that all holders of F&F preferred shares are on equal footing.

Both F&F should be profitable going forward. And they now have seemingly full backing by the United States Treasury. Why should the interests held by previous holders of preferred shares be treated as virtually worthless? It seems to me that the justification for reducing the risk weight to 10 percent would indicate that the entities are viable. Thus, a value of more than pennies on the dollar on the preferred shares should be reasonable.

Another consideration is that a 10 percent risk weight on Fannie Mae and Freddie Mac debt could be detrimental to the marketability of the debt of the Federal Home Loan Banks. It is my understanding that the FHLBs are having difficulty issuing debt given the current economic crisis. If that is true, the preference of F&F debt could be to the detriment of the FHLBs. The debt of the FHLBs is used for the same purpose as the debt of F&F, which is to facilitate the availability of financing for housing in this country. I urge the regulators to consider the possible unintended adverse consequences of a preferred risk weight for F&F versus that of the FHLBs and to reconsider the adverse consequences of the mark-to-market effect on the banking system, particularly the community banks which hold a disproportionate amount of F&F preferred stock.

Sincerely,

Peter Y. Waller
Chairman, President & CEO