First South Bank

November 6, 2008

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, DC 20551

Re: Docket No. R-1335:

Dear Ms. Johnson:

This comment letter is in response to the publication of a proposed rule by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision (collectively, the "Agencies") to allow a banking organization to assign a 10 percent risk weight to claims on, and the portion of claims guaranteed by, Fannie Mae or Freddie Mac (GSEs). The Agencies have requested comment on the potential effects of this proposal on other banking organization claims on GSEs, such as debt issued by the Federal Home Loan Bank ("FHLB"), which are currently assigned a risk weight of 20 percent. We believe that any final rule adopted by the Agencies should afford similar treatment for obligations issued by the FHLBanks. Otherwise, the proposal may have unintended adverse consequences for the banking system during this time of economic stress.

I am concerned that the proposed rule suggests that the United States government does not support the FHLB and their mission to the same degree as Fannie Mae and Freddie Mac. In my opinion, such a perception would be inaccurate and misleading.

Congress created a new regulator, the Federal Housing Finance Agency ("FHFA"), to oversee all of the housing GSEs. When the FHFA took control of Fannie Mae and Freddie Mac, the Director of FHFA remarked that the FHLB is performing remarkably well and is well capitalized. The United States Treasury is providing the same temporary backstop funding facility to the FHLB as Fannie Mae and Freddie Mac through the GSE Credit Facility. Finally, the Federal Reserve Bank of New York is providing support for the FHLB, as well as Fannie Mae and Freddie Mac, by purchasing their discount notes in recent open market operations.

My main concern is that this proposal will result in increases in the cost of borrowing for the FHLB and, consequently, in advances my bank receives from the FHLB. Many community banks depend upon access to low-cost liquidity from the FHLB. I believe it would be counterproductive to adopt any proposal that would have the effect of raising the cost of funds for banks in this stressed economic environment.

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If investors believe that the Agencies view the FHLB as posing greater risk than Fannie Mae and Freddie Mac, they will demand higher yields to purchase FHLB bonds. This could result in higher advance rates during a recessionary period when the banking industry is faced with the challenge of supporting housing finance and economic growth under extremely stressed economic circumstances in the credit markets.

I respectfully request the Agencies to afford the same treatment to the debt securities of all housing GSEs under the risk-based capital rules. I believe this course of action reflects the parity that Congress intended for the housing GSEs.

Sincerely,

William L. Wall

William L. Wall
Executive Vice President
Chief Financial Officer and
Secretary

Copy: Federal Home Loan Bank of Atlanta