February 10, 2014

VIA EMAIL: regs.comments@federalreserve.gov
Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Federal Reserve Policy on Payment System Risk (Docket No. OP-1472)

Dear Mr. deV. Frierson:

The Federal Home Loan Banks (the "FHLBanks") listed below appreciate the opportunity to comment on the proposed change to part II of the Federal Reserve Policy on Payment System Risk (the "Proposed Change") published in the Federal Register on December 10, 2013. As described in more detail below, if adopted, the proposal by the Board of Governors of the Federal Reserve System ("Board") to move posting of Automated Clearing House ("ACH") debits to 8:30 a.m. EST from the current posting at 11:00 a.m. EST could cause significant hardship for the FHLBanks and our members. The Proposed Change could result in the FHLBanks eliminating valuable services to our members, and it could result in reduced earnings that would negatively impact our members through lower dividends or higher costs for services.

The FHLBanks serve the public interest by providing liquidity to approximately 7,000 member financial institutions. As cooperatives, the FHLBanks also provide our members (particularly smaller, community-based institutions) with other financial services, including the option to clear their Federal Reserve activity (including ACH transactions) through each member's account with its respective FHLBank. This service helps our members manage their risk, liquidity, and transaction processing. Members generally use their FHLBank for this service because they do not have a Federal Reserve Master Account due to cost considerations. In addition, members often wish to leverage their FHLBank membership to consolidate their financial activity in one institution. Also, some FHLBank members' counterparties (such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation) require the members to hold deposits for ACH activity at a qualified institution; our members often prefer to use the FHLBanks to satisfy this requirement rather than place deposits with a competitor.

The FHLBanks support the Board's desire to enhance the efficiency of the payment system. However, we have significant concerns with the proposal to move the posting of ACH debit transactions to 8:30 a.m. Eastern Standard Time ("EST") from the current time of 11:00 a.m. EST in order to align with the posting of ACH credit transactions. Of primary concern to the FHLBanks is the increased risk of overdrafts in our Federal Reserve Master Accounts. The risk of overdrafts arises because the volume of our members' ACH debits can vary significantly, since they in turn reflect varying activity by each member's own customers. Unlike most institutions with Federal Reserve Master Accounts, statutory restrictions prevent FHLBanks from receiving intraday credit (even if collateral is posted) and borrowing from the discount window. Additionally, due to our classification as Government Sponsored Enterprises,

FHLBanks are not permitted to have a net debit cap in our Master Accounts that would limit exposure to overdrafts caused by ACH debits. Considering these limitations, the proposal to change the posting time for ACH debits seriously challenges our ability to manage ACH activity. Presently, the FHLBanks may receive ACH credits at 8:30 AM EST, with a limited opportunity to view and prepare for ACH debits before they are posted to each FHLB's Master Federal Reserve Account at 11:00 a.m. EST. The advance receipt of ACH credits and opportunity to make appropriate adjustments (including by engaging in capital markets transactions) allow each FHLBank to ensure its Master Account balance is sufficient to manage ACH debits. But if ACH debits were posted along with ACH credits at 8:30 a.m EST, it would be impossible to determine the exact liquidity necessary to satisfy the ACH debits.

If the Board adopts the Proposed Change, the FHLBanks would have to make significant operational changes that could have a negative impact on our membership. For example, if the FHLBanks increased the overnight balances in their Master Accounts to protect against possible overdrafts due to ACH debits, the opportunity cost would be the inability to invest funds in income-producing capital markets activities. Because the FHLBanks are not eligible to earn interest on our Master Accounts, the Proposed Change could ultimately result in lower earnings for the FHLBanks. As cooperatives, the decreased earnings could result in lower dividends or increased prices for services to members.

The increased costs and risks discussed above may lead some FHLBanks to consider eliminating ACH services. This would leave members with limited options to hold their funds and could force them to pay more for these services and hold deposits and conduct ACH transactions with their competitors. This change would disproportionately impact smaller members who conduct ACH transactions through FHLBanks because they do not have a Master Account with a Federal Reserve Bank. FHLBanks that continue to offer ACH services would have to consider ways to mitigate increased cost and risk, such as charging higher fees or requiring our members to post collateral.

We would be in a position to support the Proposed Change if it included a revision regarding a reasonable tolerance for account overdrafts resulting from this earlier and more efficient posting of ACH debits.[1]

If the Board adopts the Proposed Change, the FHLBanks agree that the effective date should be six months from the date of the final rule. The FHLBanks would need at least this much time to determine whether we will continue to offer ACH services, to identify necessary changes to our pricing, procedures, and capital markets activities, and to notify our members of these changes.

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[1] As noted above, the FHLBanks are government-sponsored enterprises and are not considered member banks or depository institutions (as defined in Board statutes and regulations). As a result, FHLBanks are not permitted to receive credit (including intraday credit) from the Federal Reserve Banks or to earn interest on deposits in their transaction accounts. *See, e.g.,* 12 U.S.C. § 461, 12 C.F.R. Parts 201 and 204, and *Guide to the Federal Reserve's Payment System Risk Policy on Intraday Credit* (July 2012) at 44-45. If the FHLBanks were eligible for intraday credit and interest on deposits at the Federal Reserve Banks, we would not object to the Proposed Change.

Questions

The Board specifically invited responses to four questions relating to the benefits and drawbacks to the Proposed Change. The FHLBanks provide the following responses to these questions, in addition to the comments above:

(1) What additional costs would institutions expect to incur in order to fund their Federal Reserve accounts by 8:30 A.M. for ACH debit transactions? Are there significant differences in the anticipated effect on those institutions eligible and ineligible to receive intraday credit or earn interest on balances in Federal Reserve accounts?

As noted above, the FHLBanks are not eligible to receive intraday credit or earn interest on balances in their Federal Reserve Master Accounts, therefore additional liquidity held overnight to cover earlier posting of ACH debits will have significant opportunity cost. The FHLBanks may be forced to consider eliminating services they offer to their members in order to mitigate any unforeseen fees and penalties. Therefore, the Proposed Change would have a disproportionately large impact on the FHLBanks compared to institutions eligible to receive intraday credit or earn interest on balances in Federal Reserve accounts.

(2) What are the expected benefits from posting ACH debit transactions earlier?

The FHLBanks acknowledge the benefit to the Federal Reserve Banks of aligning the transaction timing of ACH credits and debits in the overall initiative to enhance the payment systems. However, we believe the costs to FHLBanks and our members (particularly smaller, community-based institutions) as explained in this letter outweigh the benefits.

(3) Would the proposed changes affect the availability of funds to institutions' customers' accounts? Would the proposed changes affect the debiting of funds from institutions' customers' accounts?

FHLBanks post the ACH transaction files in accordance with ACH rules that make funds available to members (our customers) by the time they open for business. Some FHLBanks allow our members to use intraday credit without incurring overdraft fees for this activity, although the FHLBanks do not receive intraday credit from the Federal Reserve Banks. If our members used accounts with the Federal Reserve Banks, those Banks would generally charge them fees or require collateral for intraday credit. As noted above, the FHLBanks may consider not offering ACH services to our members if the Proposed Change becomes effective. This could impact our members' customers (depending on what actions our members take in response to changes at the FHLBanks).

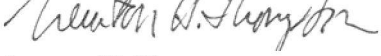
(4) What additional costs would institutions expect to incur if ACH credit and debit transactions were posted between 6:00 a.m. and 8:30 a.m.? If the Reserve Banks' NSS operating hours did not open before 8:30 a.m. would that create a competitive disadvantage for private-sector operators?

We describe additional costs in our response to question number one. Some FHLBanks normally do not staff their operations before 9:00 a.m. EST (although some Banks may increase staffing and incur additional costs by opening earlier if the Proposed Change is adopted). However, we do not anticipate any disadvantages if the Reserve Banks' NSS operating hours did not begin before 8:30 a.m.

Again, we thank you for the opportunity to comment. Please contact Gustavo A. Molina, Chief Banking Operations Officer at the Federal Home Loan Bank of Dallas, at (214) 441-8546 or gustavo.molina@fhlb.com, with any questions you may have.

Respectfully submitted,

Federal Home Loan Bank of Boston



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