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April 9, 2002

Elaine L. Baker
Secretary to the Board
Federal Housing Finance Board
1777 F Street, N.W.
Washington, DC 20006

Dear Ms. Baker:

The Federal Home Loan Bank of Boston (Bank) is pleased to offer the following comments for the record of the Federal Housing Finance Board's (FHFB) April 11, 2002, public hearing on capital plans.

Our capital plan is straightforward. It envisions a single class of capital stock and additive membership and activity-based stock purchase requirements to ensure that the Bank remains well capitalized under a range of scenarios. Our activity-based requirement applies to both advances and acquired member assets. We intend to manage the level of excess capital stock to serve our shareholders' best interests.

We have been satisfied with the discussions we have had to date with FHFB staff concerning our capital plan and appreciate their efforts to ensure that our plan is complete and conforms to all statutory and regulatory requirements.

Nevertheless, we do harbor concerns about the "capital sufficiency test." By statute, a Federal Home Loan Bank (FHLBank) must satisfy three capital requirements: two leverage requirements – one weighted and the other unweighted – and a comprehensive risk-based capital requirement. We acknowledge that per the statute, the FHFB has the authority to impose additional capital requirements on a FHLBank. However, we consider the capital sufficiency test to be an unnecessary measure of capital adequacy. Its effect is to limit a FHLBank's ability to efficiently leverage its capital stock. The capital sufficiency test essentially precludes a FHLBank from using excess capital stock to invest in mortgage-backed securities (MBS) and other similar long-term assets, despite the fact that the status of capital stock as "excess" has no bearing on its permanence.

It is our understanding that the capital sufficiency test has been established because of a concern that members have the right to redeem or otherwise demand repurchase of excess capital stock without regard to the five-year notice period. We fail to understand the statutory underpinnings for that concern. Our understanding of the statute and regulation is that a FHLBank can elect to repurchase excess capital stock without regard to the five-year notice period, but members seeking to redeem excess stock are unequivocally subject to the five-year notice period. If that is not the case, then one of the fundamental reasons for including FHLBank legislation in Gramm-Leach-Bliley is called into question, namely the establishment of a more permanent capital base for the FHLBanks.

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We have never understood the concerns about the FHLBanks' MBS investments. MBS are clearly an investment in housing finance and are consistent with our mission. The FHLBanks have demonstrated their ability to safely and soundly manage MBS portfolios for more than 10 years. The MBS market is highly liquid and holding MBS increases a FHLBank's liquidity either through the sale of MBS in an available-for-sale portfolio or as collateral for repurchase agreements. Most significantly from a management perspective, MBS have proven their utility as net income stabilizers as advances fluctuate through business cycles.

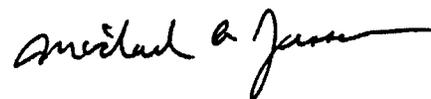
We are especially concerned that the capital sufficiency test will impair the ability of the FHLBanks to manage their capital and balance sheets throughout an entire business cycle. In our view, the capital sufficiency test is inconsistent with Gramm-Leach-Bliley's mandate to return corporate governance and business control to the boards and managements of the FHLBanks. The FHLBanks can and should focus on its primary statutory duty, which is to ensure that the FHLBanks operate safely and soundly. The shareholders and board of directors of each FHLBank will provide effective market discipline in terms of how a FHLBank's capital stock is deployed.

We would hope all parties involved would evaluate the long-term effects of the capital sufficiency test to determine if there are any unintended consequences.

Sincerely,



William P. Morrissey
Chairman of the Board



Michael A. Jessee
President and CEO

cc: Directors of the FHLBank of Boston
FHLBank Presidents
Council of FHLBanks