



January 13, 2004

Ms. Elaine Baker
Executive Secretariat
Federal Housing Finance Board
1777 F. Street, N.W.
Washington, D.C. 20006
Attn: Public Comments

**RE: PROPOSED RULE ON VOLUNTARY REGISTRATION WITH THE
SECURITIES AND EXCHANGE COMMISSION**

Dear Ms. Baker:

The Federal Home Loan Bank of Des Moines (Bank) appreciates the opportunity provided by the Federal Housing Finance Board (Finance Board) to comment on the proposal to require each Federal Home Loan Bank (FHLBank) to voluntarily register with the Securities and Exchange Commission (SEC). The Bank's Board of Directors commends the Finance Board for permitting 120-days for submitting comments. This is a significant issue that will impact the FHLBanks, as well as their community financial institution members and the public, and deserves thoughtful consideration of all parties impacted by the proposal.

The primary duty of the Finance Board is to ensure that the FHLBanks operate in a financially safe and sound manner. To the extent consistent with that primary duty, the Finance Board is also responsible for (i) supervising the FHLBanks; (ii) ensuring that the FHLBanks carry out their housing finance mission; and (iii) ensuring the FHLBanks remain adequately capitalized and able to raise funds in the capital markets.

In fulfillment of those duties, the Finance Board adopted a regulation in 1998 requiring that the combined annual and quarterly financial reports for the FHLBank System be prepared in a manner generally consistent with disclosures required to be made by SEC registrants. The Finance Board also adopted a regulation that requires any financial statements contained in any annual or quarterly financial report issued by an FHLBank to be consistent in form and content with the financial statements presented in the combined financial reports of the FHLBank System. When the Finance Board devolved responsibility for preparation and distribution of the combined annual and quarterly financial reports for the FHLBank System to the Office of Finance in 2000, the Finance

Board required that these reports be prepared and distributed generally in accordance with the SEC's regulations S-K and S-X.

The Finance Board's promulgation and adoption of these and other existing regulations support a conclusion that Congress granted the Finance Board authority to regulate the FHLBanks' financial disclosures. The Bank's Board of Directors believes that the Finance Board must identify and clarify for the administrative record the statutory basis for the Finance Board's authority to delegate its responsibilities to regulate the FHLBanks, including their financial disclosures, to another administrative agency.

First Manhattan Consulting Group (First Manhattan), a highly respected financial consultant engaged by the FHLBanks, has identified the expected range of costs set forth below that would be associated with SEC registration for the FHLBanks and their members. The Finance Board's proposed rule did not cite to, or provide, any quantitative information regarding the estimated value or costs of voluntary registration with the SEC. The Board believes that the Finance Board must identify and provide for the administrative record a cost/benefit analysis of SEC registration and should show how it has determined that the estimated benefit of SEC registration outweighs these estimated costs.

The SEC has not previously had a regulatory role with regard to the FHLBanks and is not charged with ensuring that the FHLBanks fulfill their statutory mission. The Finance Board had recognized that the SEC's regulations do not neatly fit the unique congressionally defined structure of the FHLBanks as it has identified and applied disclosure and financial presentation exceptions to the SEC regulations that it has imposed on the FHLBank System. There will be duplicative regulation of the FHLBanks if they are required to register with the SEC, which may lead to conflicting legal interpretations or policy judgments among regulators and related delays in the implementation of business decisions by the FHLBanks.

Beyond the issues that First Manhattan has illustrated to the FHLBanks, there are inconsistencies in the proposal being made by the Finance Board. For example, while increased disclosure is a laudable goal, and the SEC certainly has vast experience in reviewing and dealing with public company disclosure issues, the Finance Board's proposal envisions that the disclosures made by the FHLBank System with regard to the securities in which the public may invest, FHLBank debt, would continue to be reviewed and regulated by the Finance Board. The SEC would have jurisdiction over the FHLBanks' capital stock. That stock is owned by members, is not publicly traded and never fluctuates in redemption value. In short, the increased disclosure requirements imposed on the 12 FHLBanks could result in individual FHLBank information that is not material to the FHLBank System or its debt investors having an impact on the System and its cost of funds. This would put the FHLBanks at a distinct disadvantage to Fannie Mae and Freddie Mac, which do not make disclosures on a regional or segmented basis. In this regard, the following points made by First Manhattan are instructive and important to reflect upon:

1. First Manhattan has estimated that the FHLBank System is significantly more likely than Fannie Mae and Freddie Mac to have to address disclosure issues that occur as a result of imposing individual disclosure obligations on the 12 FHLBanks, but that the events reported by individual FHLBanks, which are separate cooperatives that do business regionally, may not be material to the FHLBank System as a whole or its debt investors.

2. As a result of the increased probability of disclosure issues occurring, there is an increased chance that the nearly continuous daily issuances of debt securities by the FHLBank System could be disrupted, delayed or become more costly to complete. First Manhattan has suggested and this Bank's Board of Directors agrees that an appropriate response would be for the FHLBanks to consider holding a permanently higher level of liquidity. First Manhattan has estimated that the ongoing cost of carrying additional liquidity translates to a permanent 4 – 7 basis point increase in the annual cost of conducting business.

3. First Manhattan thinks it is probable that prudent members of the FHLBanks would change their liquidity management practices to lower their reliance on FHLBank System liquidity. First Manhattan estimates that this would result in increases in liquidity management costs of up to \$500 million per annum for the collective membership of 8,000 plus financial institutions.

The FHLBanks' mission is to provide a reliable, low-cost source of funds to their members, the majority of which are community financial institutions. The potential for increasing the cost of conducting business with the FHLBanks' members, which First Manhattan has now documented, seems inconsistent with the achievement of the FHLBanks' mission. Moreover, as First Manhattan has stated, increases in the FHLBanks' cost of operations that are passed on to members in the form of higher borrowing costs or lower dividend rates, will likely be passed on to consumers in the form of higher home mortgage rates. The Bank's Board of Directors asks the Finance Board, as the FHLBanks' safety and soundness and mission regulator, to take these increased costs into consideration when making its final decision on the rule and to publish its analysis demonstrating how the benefits outweigh the costs.

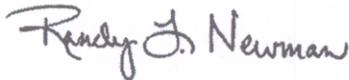
Without, among other things, the information used by the Finance Board to conclude that it would be beneficial to the FHLBanks and their members for the FHLBanks to register with the SEC, and a clear expression by it of how laws meant to apply to public companies can be applied to the FHLBanks in a way that will not undercut their statutory mission, the Board of this Bank is not able to support adoption of the rule in final form. If the Finance Board can provide the information requested, the Board could reconsider the proposal.

As a final matter, the Bank's Board of Directors notes that there are currently bills pending in the U.S. Senate and House of Representatives that, if adopted, could restructure the regulatory regime for the FHLBank System. Some of those proposals would create a new regulator for the FHLBanks and the other housing government-

sponsored enterprises, possibly as an independent office within the Treasury. Other independent banking regulatory agencies within the Treasury have authority under section 12(i) of the Securities Exchange Act of 1934 to regulate the financial disclosures of the entities they regulate. The Bank's Board of Directors suggests that it might be prudent for the Finance Board to delay action on this proposed regulation until such time as Congress has had an opportunity to act on this pending legislation.

Once again, the Bank appreciates the opportunity to comment on this proposal.

Sincerely,

A handwritten signature in cursive script that reads "Randy L. Newman".

Randy L. Newman
Chairman