



FHLBI

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Building Partnerships. Serving Communities.

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APR - 7 2014

FINRA

Office of the Corporate Secretary

April 4, 2014

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

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Office of the Corporate Secretary

Re: Proposed Amendments to FINRA Rule 4210 for Transactions in the TBA Market

Ms. Asquith:

On behalf of the twelve Federal Home Loan Banks (the "FHLBanks"), we are submitting this letter regarding the recently proposed amendments to FINRA Rule 4210 for forward settling transactions of TBAs, specified pools and CMOs. The FHLBanks recognize the importance of maintaining the integrity and efficiency of these markets and support the efforts of FINRA to safeguard them. However, the FHLBanks do not believe the proposed amendments to Rule 4210 to margin agency mortgage-backed security transactions should apply to the FHLBanks due to their status as government-sponsored enterprises ("GSEs") and the inherent low risk the FHLBanks present to their trading counterparties, combined with their relatively low trading volume of agency mortgage-backed securities and their experience and tested practices and procedures for the management of unsecured credit risk.

The twelve FHLBanks, as GSEs, serve the general public interest by providing readily available, competitively priced funds to approximately 7,000 member financial institutions, thereby enhancing the availability of credit for residential mortgages and community development.

While each FHLBank is independently chartered and managed, the FHLBanks issue consolidated debt obligations for which each individual FHLBank is jointly responsible for the payment of principal and interest. The FHLBanks raise funds in the capital markets at narrow spreads to the U.S. Treasury yield curve, and their consolidated obligations receive the same credit rating as the government bond credit rating of the United States, although the consolidated obligations are not obligations of the United States. The FHLBanks' independent federal regulator is the Federal Housing Finance Agency ("Finance Agency"), which was created by the Housing and Economic Recovery Act of 2008. The Finance Agency's stated mission includes ensuring that the FHLBanks operate in a safe and sound manner so they can continue to serve as a reliable source of liquidity and funding for housing finance and community investment. The Director of the

Finance Agency is a member of the Financial Stability Oversight Council, along with the Chairman of the Board of Governors of the Federal Reserve System.

The FHLBanks are each individually rated AAA by Moody's and at least AA by S&P, maintain strong risk management practices, and do not pose a credit risk to their counterparties during the settlement of mortgage-backed securities. Each FHLBank currently manages counterparty risks daily through a variety of risk management policies, procedures, guidelines, and practices. Similarly, each FHLBank manages security-specific market risks and the overall market risk of their balance sheet through a variety of hedging tools. Each FHLBank also uses a variety of funding strategies based on their balance sheet positions at the time of asset purchases, the attributes of the purchased assets, and current and potential future market conditions.

While the FHLBanks are active participants in the agency mortgage-backed securities market, their trading volume is relatively low when compared to the overall agency mortgage-backed securities market. In addition, while the FHLBanks support FINRA's effort to reduce counterparty risk in the agency mortgage-backed securities market, the FHLBanks do not believe that the margining of mortgage-backed securities transactions is comparable to swap transaction margining. In a swap transaction, the FHLBanks and their counterparties enter into long-term relationships and agree to swap a series of cashflows at futures dates. These agreements rely on the counterparties being of sufficient credit quality to be able to support the transactions. Margining assists in this endeavor, as it is tied to the change in value of the long-term contracts that could be monetized at any point by either party. By contrast, mortgage-backed security transactions share more of the qualities of unsecured Federal funds transactions, which are un-margined, short-term agreements. The FHLBanks participate in the unsecured Fed funds market on a daily basis, and have practices and procedures to manage the counterparty risk that are monitored and reviewed by the Finance Agency on an ongoing basis.

In addition, the proposed margin requirements could possibly increase risk to the FHLB system in the case of a failing counterparty combined with an adverse rate movement. In such an environment, the FHLBanks would be required to post additional collateral to a counterparty that is deteriorating in credit quality, thereby putting additional assets at risk. As demonstrated in the Lehman Brothers and MF Global bankruptcies, this additional collateral may become an unsecured exposure to the insolvent entity, and the right to pursue a claim in an insolvency proceeding does not make counterparties whole, as multi-year delays are normal, claims are not paid on a timely basis, and large legal costs are incurred. Current practices and procedures limit trading with counterparties with deteriorating credit quality and thereby limit risk to assets and avoid bankruptcy proceedings.

In summary, while the FHLBanks support the efforts of FINRA to minimize counterparty risk in the agency mortgage-backed securities markets, the FHLBanks believe that the proposed changes to Rule 4210 to margin agency mortgage-backed security transactions

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should not apply to the FHLBanks due to the low counterparty risk they present as highly rated and creditworthy GSEs, their relatively low trading volumes of mortgage-backed securities, and their continued experience and tested practices and procedures for the management of unsecured credit risk which are regularly monitored and reviewed by the Finance Agency.

Respectfully yours,

A handwritten signature in black ink, appearing to read "C. Konich". The signature is written in a cursive style with a large initial "C" and a long, sweeping underline.

Cindy L. Konich, President-Chief Executive Officer
Federal Home Loan Bank of Indianapolis