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BY E-MAIL: rule-comments@sec.gov

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: Prohibition Against Conflicts of Interest in Certain Securitizations
Release No. 34-65355; File No. S7-38-11

Dear Ms. Murphy:

This letter is being submitted on behalf of Northwest Farm Credit Services, FLCA ("Northwest") in response to Proposed Rule 127B under the Securities Act of 1933 (the "Securities Act") relating to the Prohibition Against Conflicts of Interest in Certain Securitizations referenced above (the "Proposing Release") released by the U.S. Securities and Exchange Commission (the "Commission"). We refer herein to the Commission's commentary included in the Proposing Release as the "Commentary" and the text of the proposed rule contained in the Proposing Release as the "Proposed Rule".

The Proposing Release seeks to give effect to the Commission's mandate contained in Section 621 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") to issue rules implementing new Section 27B of the Securities Act. Section 27B, in part, prohibits a sponsor of an asset backed securities transaction, including a synthetic securitization, from engaging in any transaction that would involve or result in a material conflict of interest with respect to any investor in a transaction arising out of such activity.

Northwest:

Northwest provides agriculture related financing in the Northwest United States, has 45 offices in four states and has total assets, as of its most recent annual report dated as of December 31, 2010, of approximately $8.705 billion. While institutions regulated by the Farm Credit Administration ("FCA") are exempted from certain portions of the Dodd-Frank Act, Section 621 does not contain a specific exemption for Northwest or other similar FCA regulated institutions. As a result, we are providing these comments in an attempt to prevent an unintended consequence with respect to the Proposing Release that would adversely impact an important method for mitigating risk relating to Northwest's agricultural real estate loan portfolio.

Background:

Northwest completed three synthetic securitization transactions in 2002, 2004 and 2007 for the purpose of transferring credit risk on a static segment of Northwest's long term first lien agricultural mortgage loan portfolio. In connection with the synthetic transactions in which Northwest participated, Northwest selected a reference portfolio of first lien agricultural mortgage loans from Northwest's balance sheet (the "Reference Portfolio"). The Reference Portfolio of agricultural loans was stratified into notional segments and credit risk tranches as follows:

1. "Super senior position" above the credit tranche rated "AAA";
2. Senior credit tranches rated "AAA" and "AA";
3. Mezzanine credit tranches rated from "A" to "B"; and
4. An equity credit tranche, which did not receive a credit rating.

The mechanics of the transactions undertaken by Northwest (each, a "CDS Transaction" and together, the "CDS Transactions") may be summarized as follows:

a. Northwest enters into a credit derivative contract with a special purpose vehicle (the "SPV"), in order to achieve credit default protection on a portion of the Reference Portfolio.

b. In exchange for the credit default protection provided under the credit derivative contract, Northwest pays the SPV a monthly fee based on the aggregate outstanding principal balance of the Reference Portfolio.

c. In order to support its obligations to Northwest under the credit derivative contract, the SPV issues credit linked notes (the "Notes") to investors, and the cash proceeds of the notes are utilized to purchase eligible investments, which include United States Treasury obligations and the obligations of certain government sponsored enterprises (the "Collateral Securities"). The Collateral Securities support the SPV's obligation to pay any losses suffered by Northwest as a result of a default and liquidation of the loans included in the Reference Portfolio. The maturity date of the Notes is approximately the same date as the termination of the credit derivative contract.

d. After the occurrence of a default and credit loss after liquidation on a loan within the Reference Portfolio, the SPV makes a payment to Northwest equal to the credit loss incurred by Northwest.

e. Upon the payoff or repayment of a loan in the Reference Portfolio, Northwest, as holder of the Super Senior Position, and each credit tranche of issued Notes is paid its pro rata portion of the principal balance of such loan.

In connection with the 2002 and 2004 CDS Transactions, Northwest retained only the "Super Senior Position" in the credit structure, which position was senior in credit support to the credit tranche rated "AAA" by the applicable rating agency. In the 2007 CDS Transaction, in addition to the Super Senior Position, Northwest retained the most subordinate credit tranche exposure in the transaction. For the first 0.60% of credit losses on the Reference Portfolio in 2007, Northwest would not be paid by the SPV for such loss; rather those losses would be absorbed by Northwest directly.

The three CDS Transactions undertaken by Northwest have performed in accordance with their respective terms. Northwest is the originator and initial holder of the loans in each respective Reference Portfolio on its own balance sheet and, although it may sell certain of the loans later, is required in all instances to continue to act as servicer for the loans in the respective Reference Portfolios. Cumulative information on each Reference Portfolio and the Notes issued in the three CDS Transactions is detailed in the table attached to this letter as Exhibit A. These CDS Transactions were undertaken to provide Northwest with credit protection on its long term assets as an alternative to selling those assets in a traditional cash, i.e. non-synthetic, securitization. Based upon our review of the Proposing Release, it appears that transactions such as the CDS Transactions would be prohibited, whether participated and conducted by a financial institution subject to regulation by the FCA or any other prudential regulator. Northwest is hereby submitting comments to the Proposing Release in an attempt to prevent that occurrence and allow transactions such as the CDS Transactions to continue to provide credit enhancement and credit protection for balance sheet lenders such as Northwest.

Comments:

1. As proposed, the Proposing Release would prohibit transactions such as the CDS Transactions that allow Northwest, as a securitization participant, to manage its existing risk exposure to its agricultural mortgage loan portfolio. As a frame of reference, the CDS Transactions are unlike the transactions discussed in the Report of the Senate Permanent Committee on Investigations, which involved transactions created by securitization participants who did not actually hold the underlying assets on their balance sheets, but rather created the transactions solely for the purpose of benefiting on the anticipated default of such assets. In contrast, the CDS Transactions provide Northwest with an important credit, risk mitigation and hedging function. Northwest is proud of its loans, its customers and its credit underwriting and participates in the CDS Transactions not because the loans are inferior and expected to incur losses, but rather in the exercise of prudent risk management of its balance sheet, which allows Northwest to serve more customers as part of its lending mission to its cooperative customers. While the effect of the CDS Transactions is an exchange of credit risk among the transaction participants, mainly to the holders of the Notes assuming credit risk with respect to a portion of the Reference Portfolio, its economic effect is substantially similar to that of a cash securitization transaction, in which the investors purchase notes directly that bear differing levels of credit exposure according to their preference. Under the Proposing Release and the examples cited therein, however, because a CDS Transaction is structured as a synthetic transaction, and Northwest as sponsor would potentially benefit on a default on loan in the underlying Reference Portfolio within one year from closing, the synthetic transaction is deemed a violation of the Proposed Rule, notwithstanding that the "benefit" to Northwest as sponsor is not speculative but is simply inherent in the nature of the hedging and risk-transfer function of the transaction. In

addition, a cash securitization, while economically equivalent in terms of risk transfer, would be substantially more expensive than the synthetic alternative. To avoid the unintended consequence of eliminating a highly valuable risk management tool, we strongly suggest that the Commission modify the Proposed Rule to provide that synthetic transactions that allow securitization participants to manage or hedge risk exposure on their own balance sheet should not be prohibited.

2. If the Proposing Release is not modified to allow securitization participants to participate in synthetic credit-linked note transactions to mitigate an existing risk exposure, as described in item 1 above, then the Proposing Release should be narrowed such that any covered conflicts discussed in the Proposing Release can be managed through disclosure rather than complete prohibition. One of the most important aspects of securitization is that it serves to allocate and price risk among investors. The Proposing Release contemplates that a cash securitization of balance sheet loans undertaken by a securitization participant such as Northwest would be permissible, while a synthetic securitization to substantially the same economic effect, as to both investors and sponsors, would be prohibited. The material risks to investors in both instances can be adequately disclosed, and accordingly the prohibition of the synthetic credit-linked note structure does not seem to accomplish any legitimate regulatory purpose or have any basis within the governing statutory provision of the Dodd-Frank Act. We understand that several other commentors are proposing a disclosure regime to effect the implementation of Section 621 of the Dodd-Frank Act and we agree that absent the specific exemption for risk mitigation, disclosure of the requisite conflict would be an appropriate method to enforce Section 27B and allow transactions such as the CDS Transaction to continue to be available to lenders.

3. An exemption from the prohibitions of the proposed rule should also be provided for customary actions taken by a loan originator or servicer in connection with a portfolio after a securitization (whether synthetic or cash-based), where those actions are authorized or not prohibited by the securitization transaction documents and are not specifically related or linked to the accomplishment of the securitization. For example, Northwest may offer additional financing products to its obligors that would apply to obligors on securitized loans in the Reference Portfolio of the CDS Transactions as well as other obligors, and which actions might increase prepayments on the securitized loans and otherwise change the credit profile or maturity profile of those loans. Similarly, Northwest as servicer of the loans is in continuous communication with its borrowers on both a lender/borrower relationship level, and a member cooperative relationship level. In each case, these activities should not be considered as necessarily "in connection with a securitization transaction", but rather should be provided exempted relief because they are related to the core business of Northwest of originating and servicing loans to its customers and working with its cooperative members.

4. Northwest is not the only financial institution that has utilized synthetic securitization to provide risk mitigation for its portfolios of loans. Other institutions regulated by the FCA as well as other banks regulated by the Office of the Controller of the Currency have participated in transactions such as Northwest's CDS Transactions. Financial institutions should not be prohibited from engaging in synthetic transactions that serve to mitigate or protect the credit exposure to assets held on their balance sheet. We respectfully request that the

Commission discuss the implementation of Proposed Rule 127B with the other prudential banking regulators and specifically formulate exemptive relief for the use of synthetic securitization structures to manage credit risk for financial institutions.

Conclusion:

We appreciate the opportunity to present our comments on the Proposing Release and hope that the Commission will review our comments and act to prevent the unintended consequence of prohibiting synthetic transactions such as the CDS Transactions as one of the tools that may be utilized by financial institutions in the mitigation of the risk of holding loan portfolios on the balance sheet.

Cordially,

Stacy D. Lavin
General Counsel
Northwest Farm Credit Services, FLCA

EXHIBIT A

CDS Transactions Completed by Northwest Farm Credit Services, FLCA

2007 Transaction			
Class	Original Principal Balance at Closing	Current Principal Balance at 11/15/11	Cumulative Realized Losses through 11/15/11
Most Senior Tranche*	$953,051,000.00	$544,671,273.87	--
2nd Most Senior Tranche	25,620,000.00	14,641,900.63	--
Class C Notes	17,934,000.00	10,249,330.44	--
Class D Notes	10,247,000.00	5,856,188.75	--
Class E Notes	8,711,000.00	4,978,360.51	--
Certificates	3,074,000.00	1,756,799.47	--
Retained 1st Loss Tranche*	6,149,713.00	3,514,577.93	$232,957.21
Total	**$1,024,786,713.00**	**$585,668,431.60**	**$232,957.21**

2004 Transaction			
Class	Original Principal Balance at Closing	Current Principal Balance at 11/15/11	Cumulative Realized Losses through 11/15/11
Most Senior Tranche*	$614,247,947.00	$185,518,596.95	--
Class A Notes	6,750,000.00	2,038,672.71	--
Class B Notes	20,250,000.00	6,116,018.14	--
Class C Notes	13,500,000.00	4,077,345.43	--
Class D Notes	8,438,000.00	2,548,491.91	--
Class E Notes	6,750,000.00	2,038,672.71	--
Class F Notes	1,688,000.00	509,819.19	
Certificates	3,375,000.00	1,019,336.36	$258,830.43
Total	**$674,998,947.00**	**$203,866.953.40**	$258,830.43

2002 Transaction			
Class	Original Principal Balance at Closing	Current Principal Balance at 11/15/11	Cumulative Realized Losses through 11/15/11
Most Senior Tranche*	$512,070,859.00	$68,744,770.14	
Class A Notes	5,628,000.00	755,547.62	--
Class B Notes	16,882,000.00	2,266,385.98	--
Class C Notes	11,255,000.00	1,510,966.80	--
Class D Notes	7,034,000.00	944,302.31	--
Class E Notes	4,221,000.00	566,664.49	--
Class F Notes	2,814,000.00	377,773.80	
Certificates	2,814,000.00	377,773.80	$25,800.48
Total	**$562,718,859.00**	**$75,544,184.94**	**$25,800.48**

*Credit Tranche retained by Northwest Farm Credit Services, FLCA