TENNESSEE
BANKERS
ASSOCIATION
PROGRESS THROUGH SERVICE

July 13, 2006

Federal Housing Finance Board
1625 I Street, NW
Washington, DC 20006

ATTN: Public Comments

RE: Federal Housing Finance Board – Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks; RIN No. 3069-8AB30; Docket No. 2006-03

Dear Sir or Madam:

The Tennessee Bankers Association is the statewide trade association for commercial banks and savings and loan associations in the State of Tennessee. All 230 banks with deposit taking facilities in Tennessee are members of the Tennessee Bankers Association. In addition, at least 174 of these are member/stockholders in the Federal Home Loan Bank of Cincinnati.

On behalf of the membership of the Tennessee Bankers Association, I would urge the board to withdraw the proposed rule and to reformulate the proposal to determine that additional regulation is, in fact, needed.

While it is important to maintain adequate capital structures for the Federal Home Loan Banks, the board already has in place and only recently approved capital plans for many of the banks. This process by itself should alert the board to the fact that Federal Home Loan Banks nationally operate very differently to serve the needs of financial institutions and their customers in specific markets. The capital proposal rule does not take into account these recently adopted capital plans, nor the unique operations of each individual bank. Instead, the capital proposal takes a one-size-fits-all approach. This is not warranted and is counter-productive, particularly with regard to the Federal Home Loan Bank of Cincinnati, of which our members are participants.

The proposed rule would require the banks to have a capital of $50 million plus 1% of the FHLB banks prior quarters' average non-advanced assets. In the case of the FHLB of Cincinnati, this would require an additional retained earnings of $317 million. This is on

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top of the existing $207.8 million in current retained earnings. To achieve this capital standard would require a limitation on dividends for one to two years. These dividends are a significant source of funding for community banks which translates into loss of lending opportunities during this capital acquisition period.

The board's proposed rule also contains a provision limiting the excess stock held by the bank. Based upon the capital structure of the Cincinnati bank, this would require a significant reduction in capital stock held by participating banks. This would cause a taxable event for some of these members that would adversely affect their financial position and again reduce funds that could be better utilized for other activities.

Finally, the proposed rule would prohibit stock dividends. Stock dividends are a common and useful tool in the financial world and should not be prohibited to the Federal Home Loan Banks. Paying dividends in stock rather than in cash allows the bank to retain additional funds for operations and increases the capital rather than diminishing capital.

We appreciate the opportunity to comment on the proposed rule, but would urge the board again to withdraw the rule and reconsider its action.

Sincerely,

Timothy L. Amos
Senior Vice President and General Counsel