

July 10, 2006

Federal Housing Finance Board
1625 Eye Street, N.W.
Washington, DC 20006
Attention: Public Comments

RE: Federal Housing Finance Board Proposed Rule #2006-03

Dear Members of the Board:

I support the premise that all Federal Home Loan Banks should operate in a safe and sound manner and be adequately capitalized based on their individual risk profiles. The maintenance of a financially strong Federal Home Loan Bank System is critical to the banking industry, the housing market and the economy.

Federal Home Loan Bank advances are a vital source of funding for our bank. This funding source is a critical part of our overall liquidity and balance sheet strategies.

I have concerns with a number of the requirements outlined in the Finance Board's proposed rule #2006-03 on retained earnings and capital stock requirements for Federal Home Loan Banks. These concerns are outlined in the following paragraphs.

The present "par" stock valuation for the Federal Home Loan Banks is inconsistent with the notion of retaining earnings. Maintaining the value of the stock at par while retaining earnings effectively transfers wealth from the owners of the stock to the government. Therefore, any legislative changes with respect to a minimum retained earnings requirement should be accompanied by revisions to the current par value trading requirements.

The proposed rule would reduce dividends. Dividends on Federal Home Loan Bank stock are an important source of earnings for our bank. Lower dividends effectively increase our borrowing costs which ultimately diminishes our lending capabilities.

The proposed rule would enforce a disproportionately harsher guideline on smaller Federal Home Loan Banks due to the \$50 million fixed minimum retained earnings threshold.

The proposed rule requires a retained earnings surplus of 1% on all nonadvance assets. This would include a premium on low risk highly liquid assets such as cash, interest bearing deposits

Federal Housing Finance Board Letter (cont.)

July 10, 2006


Page 2

and fed funds sold. This could discourage sound liquidity practices and increase financial risk. The surplus would also apply to other "mission" assets such as accrued interest receivable and derivative assets.

The proposed rule requires Federal Home Loan Banks to reduce Excess Stock levels within 60 days but does not prescribe how this could be accomplished. A mandate of this nature should be accompanied by provisions to allow the Federal Home Loan Banks to actively manage excess stock.

I appreciate the opportunity to comment on this proposal. I hope you will seriously consider the concerns noted in this letter and either withdraw the current proposal, or modify the proposal to address these concerns.

Sincerely,

A handwritten signature in blue ink, appearing to read "W.B. Kessel".

William B. Kessel
President and CEO

c: The Honorable Dale E. Kildee

John Llewellyn
Michigan Bankers Association