



## Whitaker Bank Corporation of Kentucky

July 6, 2006

Federal Housing Finance Board  
1625 Eye Street, NW  
Washington, DC 20006  
Att: Public Comments

Re: Federal Housing Finance Board Proposed Rule: Excess Stock Restrictions and  
Retained Earnings Requirements for the Federal Home Loan Banks  
RIN Number 3069-AB30  
Docket Number 2006 – 03

Dear Sir or Madam:

The Federal Housing Finance Board has issued a proposed rule that would prescribe a minimum amount of retained earnings for each Federal Home Loan Bank and would limit the amount of excess stock that a Bank can have outstanding. The proposal also would prohibit a Bank from selling excess stock to its members or paying stock dividends and restrict a Bank's ability to pay dividends when its retained earnings are below the prescribed minimum.

We oppose the rule proposed. The 2005 average dividend rate we earned on FHLB stock was 5.00 percent. Under the proposed rule imposing a 50 percent dividend payout, the FHLB of Cincinnati indicates the average dividend rate in 2005 would have been 3.03 percent. The reduced dividend would apply until the retained earnings of the FHLB reach the new regulatory requirement. The FHLB of Cincinnati has estimated 12-18 months to achieve new minimum retained earnings requirements.

The Federal Home Loan Bank of Cincinnati believes the proposal will in reality undermine the Finance Board's stated purpose and in fact cause a deterioration in the strong financial position of the Cincinnati Bank. The FHLB is an important source of funding for Whitaker Bank Corporation.

We are concerned that the proposal's one size fits all approach to retained earnings and excess stock does not agree with the capital rules established by Congress in 1999 in the Gramm-Leach-Bliley Act. As a result of that legislation, the Federal Home Bank of Cincinnati has reported to us that a new capital structure was implemented in November 2002. The capital-to-asset ratio of 5.35 percent at year-end 2005 exceeded regulatory requirement of 4.00 percent.

The proposal has been criticized by the leadership of all twelve Banks and key industry trade groups. We urge the FHFB to withdraw the proposal and reissue it as an Advance Notice of Proposed Rulemaking instead of a Proposed Rule to enable the FHFB to enter a discussion of the proposal with the FHLB's, FHLB members and other interested parties.

Sincerely,

WHITAKER BANK CORPORATION OF KENTUCKY



Elmer Whitaker, President & CEO