



July 7, 2006

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

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

Pacific Trust Bank is pleased to offer the following comments on the proposed rule by the Federal Housing Finance Board on excess stock restrictions and retained earnings requirements for Federal Home Loan Banks.

Pacific Trust Bank is a federal savings bank and a member of the Federal Home Loan Bank of San Francisco. Our Federal Home Loan Bank membership is extremely important to Pacific Trust, as it is to other community banks.

For Pacific Trust Bank, FHLB advances are a major source of funding and contingent liquidity, and they facilitate our ability to make loans to individuals and small businesses within our business area. The requirement to purchase FHLB stock to capitalize that bank and to support the level of our advances has not been onerous to Pacific Trust, although it does effectively increase the all-in cost of the advances. This has been in large part due to dividends paid on that stock, and due to the FHLBs flexibility to repurchase excess stock that results from changes to Pacific Trust Bank's balance sheet and reductions in our FHLB advance borrowing levels.

While the primary reason most financial institutions join FHLBs is for access to advances, dividends paid by stock are an important benefit that lowers their overall cost of funds and ultimately benefits consumers.

Pacific Trust Bank opposes the rule proposed by the FHLB that would require the Federal Home Loan Banks to build retained earnings, limit excess stock and stop paying dividends in stock. The proposed rule would adversely impact the FHLBs, Pacific Trust Bank and their other members, and the communities that we serve. We urge the FHLB to withdraw the proposal and reissue it as an Advance Notice of Proposed Rulemaking instead of a Proposed Rule to enable the FHLB to enter a discussion of the proposal with the FHLBs, their members and other interested parties.

The Graham-Leach Bliley Act of 1999 called for significant changes to the capital structure of the FHLBs with new, more permanent member stock. The Federal Home Loan Bank of San Francisco and the other FHLBs have spent several years and significant dollars developing these plans, plans that have required FHFB approval for implementation. Each FHLB developed its plan based on its specific situation and the needs of its members. Any changes to the capital structure should be consistent with the 1999 Act. Retained earnings policies should be part of the capital plan and be based on the risk profiles and business plans of each individual FHLB, not on a formula applied across the system without regard to the varied risks of each individual FHLB or of asset classes.

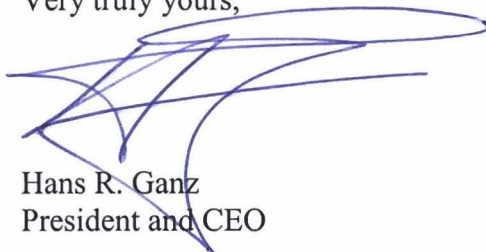
The FHFB has stated that all FHLBs are adequately capitalized. Therefore, each FHLB should be given a reasonable period of time to increase retained earnings if needed, so as not to cause unnecessary disruptions to their business or that of their members.

Some FHLBs project that they would meet the minimum retained earnings requirement by the time a final rule is expected, but it would take months or years for others to meet it. Some FHLB members could see significant, prolonged cuts in their dividends. We are concerned that if the proposal goes forward as proposed, it will cause financial institutions with multi-district memberships to shop their advance business among FHLBs to obtain the highest dividend payouts. Or the largest FHLB members with other funding options may flee the system for less costly funding as steep dividend cuts raise their all-in cost of funds. In either case, community banks that do not have such choices, such as Pacific Trust Bank, will be significantly disadvantaged.

FHLBs should continue to have the option to pay dividends in stocks, to enable Pacific Trust Bank and their other members to enjoy the tax advantages of that payment form as determined by their capital plan. Appropriate limits for excess stock can be used to alleviate regulatory concerns that excess stock is used for riskier/higher return assets or activities that are not mission-related.

For these reasons, the Pacific Trust Bank urges the FHFB to withdraw its proposal and reissue it as an Advance Notice of Proposed Rulemaking.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'Hans R. Ganz', is written over a blue horizontal line. The signature is stylized and somewhat messy, with several overlapping loops and strokes.

Hans R. Ganz
President and CEO