VERMONT BANKERS ASSOCIATION, INC.

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July 11, 2006

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

Re: Federal Housing Finance Board Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirement for the Federal Home Loan Banks.
RIN Number 3069-AB30
Docket No. 2006-03
71FR 13306 (March 15, 2006)

Dear Sir or Madam:

The Vermont Bankers Association is writing in response to the Federal Housing Finance Board's proposed rule requiring the FHLBs to increase their retained earnings. Each FHLB is different, and varies greatly in asset size, business plans, markets, and risk profiles. A retained earnings policy adopted by the FHFB should reflect both the complexity and diversity of the Bank System. This proposed rule is not tailored to the unique nature of each FHLB, nor does it allow for developing a robust retained earnings policy that appropriately distinguishes between differing FHLB risk profiles.

A restriction on paying more than 50 percent of net earnings until such time as an FHLB attains its retained earnings minimum will increase the all-in cost of borrowing; that is, the pricing of advances together with the level of the dividend.

If the cost of advances increases or the dividend level drops by too much, members may determine it is not economical to borrow from the FHLBs. A substantial loss of advances and the resulting sharp drop in net income would, in turn, only exacerbate the problem by further delaying eventual compliance with the retained earnings minimum requirement.

Authorizing the FHLBs to pay a higher percentage of its net earnings in dividends – perhaps 80 percent – and allowing the FHLBs an extended period to achieve retained earnings goals would satisfy safety and soundness objectives without threatening the FHLBs and their members.

Also, the proposed rule would have an especially adverse effect on smaller members that disproportionately rely on the FHLB for their funding sources. Unlike large banks, that are readily able to obtain other funding sources from Wall Street, smaller banks will not be able to cost-effectively tap these liquidity sources as the FHLB funding becomes less attractive due to the dividend restrictions in the proposed rule.

Thank you for your consideration of our comments.

Sincerely,

Christopher D'Elia

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President