

July 13, 2006

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

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

Dear Sir/Madam:

I thank you for the opportunity to comment on the Federal Housing Finance Board's proposed rule on excess stock and retained earnings requirements.

The Affordable Housing Programs (AHP) of the Federal Home Loan Banks (FHLBanks) are a critical source of affordable housing funds in the U.S. The programs involve a unique public-private partnership among the FHLBanks, their member institutions, community-based sponsors, state and local governments, and other entities. Funds for the Bank's AHP are made possible through the borrowing activities of its members.

The proposed rule, with its requirement to increase retained earnings by \$562 million and thereby decrease the dividends available to members, is likely to make membership in the Bank less attractive for some current members. The proposed rule would require the combined FHLBanks to increase retained earnings by over \$3 billion, according to a Bank estimate. Some members, particularly larger ones, may choose to borrow less and, therefore, reduce the profitability of the Bank, and consequently the net earnings that support the AHP. The proposed regulation may also limit the ability of the Bank to provide additional voluntary contributions for affordable housing and community economic development initiatives, in addition to supporting the AHP.

Since the beginning of the Federal Home Loan Bank of San Francisco's AHP in 1990, the Bank has awarded approximately \$400 million in AHP grants to assist in the creating of over 70,000 affordable housing units. This flow of funds, based on 10% of the Bank's earnings, is made possible because of the Bank's financial strength and strong earnings. The San Francisco Redevelopment Agency has relied on these funds to build affordable housing in San Francisco. It is a funding source for almost all of the Redevelopment Agency's projects including those at-risk of homelessness.

It is my understanding that the proposed rule does not include any analysis on the impact on the AHP, despite the likelihood that the rule would cause a reduction in Bank earnings and, therefore, funds available for the AHP. I urge you to withdraw this proposed rule. Its impact could be extremely damaging to the efforts of the Redevelopment Agency and similar agencies nationwide that are working to provide affordable housing opportunities to families in need. Thank you for your consideration of these comments.

Sincerely,

Olson Lee
Deputy Executive Director
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cc: Marcia Rosen
Matthew Franklin