July 11, 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 the Federal Home Loan Banks
RIN Number 3069-AB30
Docket Number 2006-03

Attn: Public Comments

We write respectfully to express our concern with the proposed capital rule referenced above and the deleterious effect it could have on affordable housing. Our concerns regarding the proposed capital rule stem from the very real potential that the rule will reduce the profitability of the Federal Home Loan Bank System as a whole and thereby reduce the overall contributions to the Affordable Housing Program (AHP). The proposed rule would require each Federal Home Loan Bank (FHLBank) to meet a fixed formula minimum retained earnings standard of $50 million plus one percent of non-advance assets. Over three years, FHLBanks would have to add over $2 billion to their retained earnings as a result of this proposal. Estimates of the impact of this requirement include required increases of $500 million for the FHLBank of San Francisco, $280 million for the FHLBank of Seattle, $180 million for the FHLBank of Cincinnati and $150 million for the FHLBank of Pittsburgh. We are very concerned that the required increases to the retained earnings of the FHLBanks will lead to significant reductions in AHP contributions.

The proposed limitation on dividend payments could have the consequence of driving large members from the FHLBank System. Many large members can access the capital markets themselves and as the "all-in" cost of FHLBank advances increases due to dividend limitation, these members could decrease their usage of FHLBank advances or even leave the System. This could result in the shrinking of FHLBank assets and earnings.

As you know, 10 percent of FHLBank profits are dedicated to the AHP. In 2005, a total of $280 million in AHP funds were awarded, funding hundreds of affordable housing units. If there is a decline in the number of large members, and thus profits, the Affordable Housing Program will be significantly curtailed.

Additionally, a decrease in volume of the FHLBank System will result in a higher cost of advances. Smaller members have no other access to the long-term debt markets. Raising the cost of FHLBank credit to small financial institutions will directly affect the amount of affordable housing lending these members can do. It could also raise borrowing costs for working families who are struggling to find mortgage funding. In light of the recent consumer price index information release, there does not appear to be an end in sight to interest rate increases. Higher borrowing costs, combined with an interest rate increase, could serve to end the dream of homeownership for many Americans.

In light of these possible impacts, we respectfully request that the Federal Housing Finance Board withdraw the proposed rule and issue an Advanced Notice of Proposed Rulemaking in order to better study the potential effects of such changes on the supply of affordable housing in our nation. Thank you for your consideration.

Sincerely,

Alexandria (LA) Affordable Housing Corporation

American Association of Homes and Services for the Aging

California Housing Partnership

CityView America

Community HousingWorks, San Diego

Corporation for Supportive Housing

Enterprise Community Partners

Habitat for Humanity International

Housing Assistance Council

Institute for Housing Management Innovations

National American Indian Housing Council

National Association of Local Housing Finance Agencies

National Community Reinvestment Coalition

National Housing Conference

National Housing & Rehabilitation Association

National Housing Trust

National Low Income Housing Coalition

National NeighborWorks Association

New York Housing Conference

San Diego Housing Federation

Tacoma Pierce County Affordable Housing Consortium

Tarragon Corporation

The John Stewart Company