



July 11, 2006

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

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

First State Bank and Trust appreciates the opportunity to offer comments on this very important proposal that will limit the amount of excess capital stock an FHLBank may have outstanding to 1 percent of its total assets and have serious unintended consequences for each member of the FHLBank system. The purpose of this letter is to provide a brief description of FSB&T and our perspective on the proposed federal regulatory guidance.

First State Bank and Trust is a \$312 million bank with 8 locations in six communities in Kansas. In response to the issuance of the proposal and request for comments, we conducted a detailed review of the guidance. The following comments are based on our review of the Guidance and an evaluation of the potential impact the proposed guidance might have on our current and future operations.

- The proposal appears to reduce FHLBank asset size, mortgage holdings and liquidity investments thereby reducing income and ultimately funds available to help low-income families obtain housing under the successful Affordable Housing Program.
- The proposal appears to ignore the Gramm-Leach-Bliley Act fungible capital structure, which created permanent FHLBank capital to absorb losses. FHLBank stock is held precisely for this purpose.
- The proposal appears to create an unnecessarily high retained earnings charge for having an FHLBank hold liquid assets, such as Treasury bills, agency securities, and cash. This is contrary to safety-soundness principles and the industry's need for immediate access to liquidity.

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- The restriction on the payment of stock dividends eliminates the tax-deferred benefit, which accrues to the FSBT as a member. This would appear to be contrary to statute that expressly authorizes the payment of stock dividends. Elimination of stock dividends also ignores the fact that cash dividends automatically reduce the capitalization of an FHLBank, while stock dividends maintain capital levels.
- The proposal appears to create unintended consequences. Holding more retained earnings than needed from a risk perspective deleverages the FHLBank, which in turn reduces shareholder returns. The potential ramifications of this may cause us to consider withdrawing our membership. Rather than use the proposal's one-size fits all formula, which is to often used in the regulatory environment, the Finance Board should consider adopting a risk-based approach tying the level of retained earnings to the risk on the balance sheet.

As a result of our review of the potential impact of this proposed rule on FHLBanks and First State Bank and Trust as a member, we respectfully request that the Federal Housing Finance Board not issue this proposed rule.

Once again, thank you for allowing First State Bank and Trust to offer our comments on this most important matter.

Respectfully,

A handwritten signature in black ink, appearing to read "L. Kent Needham", with a long horizontal line extending to the right.

L. Kent Needham  
President & CEO

LKN:ajd