FRIENDSHIP HOUSE ASSOCIATION OF AMERICAN INDIANS
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July 13, 2006

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

Attention: Public Comments

Subject: 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:

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

Friendship House Association of American Indians is a nonprofit corporation founded in 1963. Our agency received $496,000 through the Affordable Housing Program. These funds were used to supplement other funds from the public and private sector to build a new transitional housing and substance abuse drug treatment facility to serve very low income individuals in San Francisco, California. Our new facility has the capacity to serve 80 persons.

The Affordable Housing Programs (AHP) of the Federal Home Loan Banks (FHLBanks) are a critical source of affordable housing funds in the U.S. They involve a unique public-private partnership among the Banks, their member institutions, community-based sponsors, state and local governments, and other entities.

Since the beginning of the Federal Home Loan Bank of San Francisco's ("Bank's") AHP program in 1990, it has awarded approximately $400 million in AHP grants to assist in creating over 70,000 affordable housing units. This flow of funds, based on the statutory requirement of 10% of earnings, is made possible because of the Bank's financial strength and strong earnings. Our organization relies on these funds to build affordable housing in our communities.

Funds for the Affordable Housing Program represent 10% of FHLBanks net earnings, and are made possible through the borrowing activities of its members. The proposed rule, with its requirement to increase retained earnings and thereby decrease the dividends available to members, is likely to make membership in the Banks less attractive for some current members. 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 AHP programs.

The proposed regulation may also limit the ability of the FHLBanks to provide additional voluntary contributions for affordable housing and community economic development initiatives, in addition to supporting the AHP program. Many FHLBanks provide these voluntary funds, including the Federal Home Loan Bank of San Francisco.

We are especially concerned that the Finance Board does not seem to have devoted sufficient time to evaluating the impact of the proposed rule on AHP programs, and other voluntary contributions, which rely on FHLBank earnings for their funding. The proposed rule does not include any such analysis, despite the likelihood that the rule would cause a reduction in Bank earnings and, therefore, funds available for AHP programs.

The proposal will cause a simple trade-off between retained earnings and dividends – that is, requiring FHLBanks to increase retained earnings requires a reduction in dividends to members. Estimates vary, but the Stanford Washington Research Group indicates that the increase in retained earnings is over $3 billion for the Federal Home Loan Bank System. Some estimate that the Federal Home Loan Bank of San Francisco would have to increase its retained earnings by over $500 million. The increase could cause member institutions to find FHLBanks membership less financially attractive. Larger institutions may choose other sources of funding resulting in a reduction in advances, negatively impacting FHLBanks earnings and reducing AHP funds.

The overall impact of the proposed rule could be particularly adverse in this period of increasing mortgage rates and reduced federal funding for housing. Families unable to afford higher rate mortgages or shut out from the ever shrinking amount of federal housing subsidies do not need the Finance Board to cause a reduction in a successful public-private program like AHP.

We urge you to withdraw this proposed rule. Its impact could be extremely damaging to the efforts of our organization and similar organizations nationwide that are working to provide affordable housing opportunities to families in need. Thank you for your consideration of these comments.

Respectfully,

Helen Devore Waukazoo
Chief Executive Officer