# Capitol Federal Savings

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Capitol Federal's 113th Year of
True Blue Service

By e-mail to comments@fhfb.gov

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 Requirements for Federal Home Loan Banks.
RIN Number 3069-AB30. Docket Number 2006-03.

Ladies and Gentlemen:

The Capitol Federal Savings Bank, Topeka, Kansas, is pleased to submit comments on the proposed rule on Excess Stock Restrictions and Retained Earnings Requirements published in the *Federal Register* March 15, 2006.

Capitol Federal Savings is a member of FHLBank Topeka and a strong user of its advance window with $3.25 billion borrowed at May 31, 2006. In conjunction with those borrowings we have $165 million in stock that is paying us an annualized dividend of approximately $9.6 million. With that said, the effect of the proposed rule would be significant to Capitol Federal depending on the Topeka Bank and its ability to pay a dividend and in what form.

Capitol Federal, because of the above relationship with the FHLB Topeka and the potential negative consequences to the proposed rule, would urge the FHFB to withdraw the rule.

Our further concerns with the details of the rule are as follows:

- Stock dividends should not be prohibited. Stock dividends provide a tax benefit to Capitol Federal that should not be eliminated. Given the adoption of an appropriate limit on the amount of excess stock, there is no basis to prohibit stock dividends.

- There should be a reasonable phase-in period to meet the retained earnings minimum. The proposed rule would limit dividends to 50 percent of net income immediately if the retained earnings minimum is not met when the regulation is effective. The 50 percent limitation is too severe and restrictive and could significantly hurt our income.

- Clarify that dividends paid and income earned in a quarter are independent. The proposed rule imposes limits on dividends based on a percentage of income earned in a quarter. Standard corporate practice does not tie dividends to income earned in a period (except over the long term) and dividends are generally stable even though income is not. The FHLB need only have sufficient retained earnings to meets its retained earnings minimum after payment of the dividend.

Thank you for the opportunity to comment.

Sincerely,

John B. Dicus
President

JBD:mrc