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

Re: Federal Housing Finance Board Proposed Rule on Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks. RIN No. 3069-AB30 Docket No. 2006-03

On behalf of Citizens Financial Group ("CFG"), I am writing to strongly oppose the proposals outlined in the Notice of Proposed Rulemaking issued by the Federal Housing Finance Board (the "Finance Board") on March 15, 2005 regarding Federal Home Loan Bank ("FHLBank") Excess Stock Restrictions and Retained Earnings Requirements (the "Proposed Rule"). 71 *Fed. Reg.* 13306-13316.

Congress created the FHLBank System to provide banks and other financial institutions with a readily available source of liquidity to ensure a steady flow of mortgage lending in their communities. If the Proposed Rule is adopted as currently written, it would undermine the central and Congressionally mandated goals of the System by: 1) reducing the amount of funds available for community lenders to make home loans; 2) reducing contributions to the Affordable Housing Program; 3) undermining the capital and board governance provisions in the Federal Home Loan Bank Act; and 4) departing from modern capital regulatory policy.

Accordingly, we ask the Finance Board to withdraw the Proposed Rule and reissue it as an "Advanced Notice of Proposed Rulemaking" to allow a more open exchange of ideas between the FHLBank System and its members with the Finance Board.

Headquartered in Providence, Rhode Island, CFG is the parent company of Citizens Bank and Charter One Bank which operate retail banking centers in 12 states including Rhode Island, Massachusetts, Vermont, New Hampshire, New York, Connecticut, Pennsylvania, Delaware, Ohio, Illinois, Michigan, and Indiana. Banks under the CFG umbrella individually hold memberships in the Federal Home Loan Banks of Boston, Pittsburgh, Cincinnati, and New York.

More specifically, our concerns with the Proposed Rule are as follows:

I. The Proposed Rule increases the cost of available capital to members both large and small, ultimately decreasing the amount of mortgage capital available for community banks across the country.

The Proposed Rule will result in most FHLBanks having to rapidly increase their retained earnings, cause a reduction of dividend payments, create a taxable event each time dividends are paid (by eliminating stock dividends), and eliminate the ability of member banks to hold excess stock. This will increase the cost of capital to both large and small banks. For example, some larger banks will forgo significant dividend payment even though there has not been a demonstrated public policy justification for these new requirements. Therefore, larger lenders may leave the system as they seek alternative methods to invest their capital, potentially reducing the amount of capital available for community lenders across the country by hundreds of millions of dollars.

II. The Proposed Rule Will Reduce Contributions to the Affordable Housing Program.

There is widespread agreement among lawmakers, affordable housing developers, and housing advocates that the FHLBank Affordable Housing Program ("AHP") has had a significant and positive impact on affordable housing development in this country.

Because FHLBanks' contributions to the AHP are a statutory percentage of its profits, increased retained earnings requirements, coupled with the prospect of reduced FHLBank membership, will result in reduced earnings and reduced contributions to the affordable housing program. Additionally, the FHLBanks will be less likely to fund non-Congressionally mandated affordable housing activities.

III. The Proposed Rule Undermines the Capital Provisions Congress Adopted in the Federal Home Loan Bank Act as Most Recently Amended by Gramm-Leach-Bliley

The Gramm-Leach-Bliley Act ("GLB") amended the Federal Home Loan Bank Act ("the Act") to specifically address FHLBanks' allowable capital structure, and to place responsibility on the FHLBank Boards of Directors to adopt and then implement a capital plan -- after being approved by the Finance Board. The Proposed Rule is inconsistent with these specific statutory capital provisions and the provisions to establish greater governance by individual FHLBank boards of directors.

GLB also mandated that each FHLBank establish and implement its own capital plan to be approved by the Finance Board – virtually each has done so in a manner which recognizes differences in the members and geography they serve. In almost every case, these capital plans resulted in significantly increased retained earnings levels.

Therefore, the Proposed Rule would effectively reverse the statutory rubric that provides FHLBank boards additional governance responsibility. The Act recognizes that it is the FHLBank boards' primary responsibility to assure the safe and sound operations of their banks. Instead, under the Proposed Rule, those responsibilities would revert back to the regulator.

IV. The Proposed Rule Runs Contrary to Modern Capital Regulatory Policy by Proposing a One-Size-Fits-All Solution.

Recent regulatory and legislative trends illustrate the widespread acceptance of risk-based capital regulation. Indeed, the two most recent international and domestic regulatory and legislative actions dealing with capital standards -- Basel II and the FDIC Reform Act of 2005 – illustrate that it is more appropriate for required capital levels to be based on risk. Gramm-Leach-Bliley was consistent with this modern trend by requiring each FHLBank to adopt an individual risk-based capital plan. The Proposed Rule ignores that trend and applies a one-size-fits-all standard for every FHLBank, even though each one has unique exposures and risk portfolios.

Once again, we urge the Finance Board to withdraw the Proposed Rule and reissue it as an Advanced Notice of Proposed Rulemaking. We would be pleased to work with the Finance Board to devise viable options to address any concerns with the overall capital structure of the Federal Home Loan Banks.

Sincerely,

Lawrence K. Fish