First Financial Bank

300 High Street Hamilton, OH 45011

July 13, 2006

VIA FACSIMILE: *(202) 408-2580*

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

Attention: Public Comments
Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks
RIN 3069-AB30
Docket Number 2006-03

Our Financial Institution is a member of both the Federal Home Loan Bank of Cincinnati (the "Cincinnati Bank") and the Federal Home Loan Bank of Indianapolis (the "Indianapolis Bank"). Our institution relies on the Cincinnati Bank and the Indianapolis Bank for services and also for a reasonable return on the investment we maintain in each of them. We are deeply concerned that the proposed rule is at best unnecessary, and potentially very damaging to the Cincinnati Bank and the Indianapolis Bank, their mission and our ability to serve our customers. For the reasons, that we describe in greater detail below, we respectfully urge the Federal Housing Finance Board (FHFB) to withdraw the proposed rule for further consideration.

The proposed rule can be reduced to four main requirements:

1) Limits the amount of stock the Federal Home Loan Banks may carry;
2) Prescribes a minimum amount of retained earnings;
3) Limits the payment of dividends; and
4) Prohibits the payment of stock dividends.

These requirements will be applied in a rigid, one-size-fits-all format, irrespective of the important differences among the various Federal Home Loan Banks. We believe these requirements will have a significant negative impact on the Federal Home Loan Banks.

These requirements will specifically adversely affect the Cincinnati Bank and its members, including First Financial Bank, as follows:

The Proposed Rules Will Cause the Strong Financial Position of the Cincinnati Bank to Deteriorate.

The Cincinnati Bank is a conservative, well-managed institution that maintains the highest possible ratings with both Moody's and Standard & Poor's. The Cincinnati Bank is well-capitalized and successfully operating under a capital plan the FHFB approved in 2002. The proposed rules are unnecessary for the Cincinnati Bank. Further, if the proposed rules are enacted in their current form, the rating of the Cincinnati Bank may be lowered as a result of lower capital levels, lower liquidity and lower profitability.

The Proposed Rules Will Trigger Additional Taxes for the Federal Home Loan Bank Members

The Cincinnati Bank has traditionally paid dividends in the form of additional shares of stock, the value of which most members are generally permitted to hold on a tax-deferred basis. This favorable tax treatment would not apply to cash dividends and this change on the tax-adjusted dividend return could be significant. In addition, First Financial Bank would also be negatively impacted by the forced redemption of excess stock that may result in an immediate taxable event for the bank.

The Proposed Rules may have a Greater Adverse Effect on Smaller Member Financial Institutions.

The proposed rules are likely to have a proportionately greater impact on small- to medium sized or community bank members who typically rely more heavily on advances and who own more stock relative to their total assets than larger banks. Community banks may also have to hold more liquidity of their own if the proposed rule becomes effective if the Cincinnati Bank is forced to hold less liquidity.

The Proposed Rule Will Eliminate the Cincinnati Bank's Voluntary Housing Programs and Greatly Diminish other Mandatory Housing Programs

Like all other Federal Home Loan Banks, the Cincinnati Bank has a strong commitment to affordable housing programs. The Cincinnati Bank's successful Affordable Housing Program, which has helped nearly 35,000 households in the Cincinnati District, is funded through a 10 percent set aside of net earnings. This pool of funding will be reduced as profits are reduced. Given the uncertainty over future retained earnings requirements and mandatory capital reductions, the Cincinnati Bank has already temporarily suspended two voluntary housing programs: the New Neighbors and American Dream Homeownership Challenge. The New Neighbors fund for hurricane victims and the American Dream Homeownership Challenge for minority and special-needs homebuyers have been used successfully by Ohio banks to help our communities. If the Cincinnati Bank is forced to shrink capital to comply with the proposed rules, resulting in declining profits, it will naturally follow that less funding will be available for these successful housing programs.

For these reasons, as a shareholder of the Cincinnati Bank, we respectfully request you withdraw the proposed rule.

Sincerely,

Claude E. Davis
President and Chief Executive Officer