Fifth Third Bancorp

George A. Schaefer, Jr.
Chairman & CEO

July 11, 2006

Federal Housing Finance Board
1625 Eye St. NW
Washington DC 20006

Attention: Public Comments

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

Dear Sir or Madam:

Fifth Third Bancorp and the Fifth Third Banks (Fifth Third) thank the Federal Housing Finance Board (the Board) for providing the opportunity to comment on proposed rule 2006-03 regarding Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks (FHLB). Fifth Third, as a stockholder within four FHLB districts, urges the Board to reconsider the proposed regulation as it has the potential to negatively affect the member banks within the FHLB system as well as the FHLB system itself.

The points below highlight Fifth Third's major concerns:

- By restricting the amount of excess stock held by the FHLB, the Board will reduce the liquid assets held by the FHLBs. This could result in an FHLB not having the available funds to lend to a member on short notice. Access to these funds in an emergency is a valuable service the FHLB provides. On 9/11/01 the FHLB system performed admirably and orderly in providing funds to member banks throughout the system and was made possible by having this liquidity in place.
- Fifth Third evaluates its FHLB borrowings on an all-in basis. To the extent the dividend return on the required stock is reduced, this in effect increases the cost of the Advances. In addition, removing the ability for an FHLB to pay dividends in stock increases the cost of Advances in certain districts due to the tax considerations. These factors result in borrowing costs above other funding sources, despite Advances being secured by pledged assets.
- The combination of making Advances more expensive and less readily available takes away a reliable source of funding for Fifth Third. Losing this source of

Fifth Third Center • Cincinnati, Ohio 45263 • (513) 579-5491

funds would cause the bank to either become less profitable or increase rates charged for loans.

Fifth Third would also like to point out concerns raised regarding the FHLB system:

- While having adequate capital to ensure against potential losses is important for all financial institutions, the nature in which the requirements are applied is just as important. Arbitrary requirements do not provide appropriately capitalization if the risks of the balance sheet are not taken into account. The proposed regulation would potentially allocate the same capital to "risky" assets as to "safe" assets.
- The regulation would actually make the redemption of excess stock by members easier than within the current FHLB capital plans. Currently individual FHLBs have the ability to take 5yrs to facilitate redemption requests for Class B shares. This provides ample opportunity by the FHLB to plan accordingly for the redemption. The proposed rulings would result in a mandatory reduction of their excess stock in the event a large amount of Advances paid down in a short time period. If a bank were forced to reduce its stock in a quick manner by the excess stock created in this event, this could result in an FHLB having to take a loss on investments in order to meet the cash demands of the redemption.

While Fifth Third understands the need to ensure adequate capitalization levels, the proposed regulation has the potential to cause more harm than good to the FHLB system and the members to which the system has proved so beneficial historically. Fifth Third urges the Board to reconsider the proposed regulation in its current form and to not implement the regulation until the concerns addressed in this letter, and the hundreds of others submitted to the Board, have been evaluated and addressed.

Sincerely,

George A. Schaefer, Jr.

George A. Schaefer, Jr.
Chairman and Chief Executive Officer
Fifth Third Bancorp

GASjr:es