



**Northern Rocky Mountain  
Resource Conservation & Development**

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July 11, 2006

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

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

We write respectfully to express our concern with the proposed rule referenced above and the harmful effect it could have on the availability of affordable housing in the communities we serve—and in many other communities across our country. Our concerns regarding the proposed rule stem from the very real potential that the proposed rule, if enacted, will reduce the profitability of the Federal Home Loan Banks (FHLBanks) and, thereby, reduce contributions to the Affordable Housing Program (AHP).

The proposed rule would require each FHLBank to meet a fixed-formula, minimum retained earnings requirement of \$50 million plus one percent of non-advance assets—a projected increase of more than \$2 billion over three years for all FHLBanks combined. In addition, the proposed rule would limit dividend payments to FHLBank members until they have met their retained earnings requirement.

Because the dividend limitation will effectively increase the “all-in” cost of FHLBank advances, larger FHLBank members with direct access to the capital markets could decrease their usage of FHLBank advances or even leave the system. A decline in the number of large members would likely result in reduced FHLBank earnings and, in turn, reduced availability of AHP funding.

Additionally, as large members reduce their borrowings, FHLBank funding costs will inevitably increase. Raising the cost of FHLBank credit to community financial institutions with no direct access to the capital markets will directly affect the amount of affordable housing lending these members can support and increase borrowing costs for working families already struggling to find mortgage funding. Higher borrowing costs, combined with an interest rate increase, could serve to end the dream of homeownership for many Americans.

Since the AHP's inception in 1990, the Seattle Bank has contributed more than \$132 million to help finance more than 25,400 homes for individuals and families across our district. In addition, the Seattle Bank has funded \$3.19 billion in reduced rate loans for affordable housing and community economic development over this same period of time. In many cases,

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Federal Housing Finance Board  
July 11, 2006  
Page 2

FHLBank investments are the impetus for subsequent investments in our communities. In fact, it's hard to imagine what many of the communities in our district—and across the country—would look like today without those investments.

In light of what we believe will be unintended, but unfortunate consequences to the FHLBanks' affordable housing and community investment programs, we respectfully request that the Federal Housing Finance Board withdraw the proposed rule and issue an Advanced Notice of Proposed Rulemaking in order to further study the potential effects of such changes on the supply of affordable housing in our nation.

Thank you for your consideration.

Sincerely,



Marty Malone  
Chairperson

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