



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 Federal Home Loan Banks; RIN Number 3069-AB30; Docket Number 2006-03

Dear Sir/Madam:

On behalf of the Orange County Housing Trust I would like to express my opinion on the Federal Housing Finance Board's proposed rule on excess stock and retained earnings requirements.

The Affordable Housing Programs (AHP) of the Federal Home Loan Banks (FHLBanks) are a critical source of affordable housing funds in the U.S. They involve a unique public-private partnership among the FHLBanks, their member institutions, community-based sponsors, state and local governments, and other entities.

The approximately \$400 million awarded by the Bank in AHP grants has assisted in the creation of over 70,000 affordable housing units. This flow of funds, based on 10% of the Bank's earnings, is made possible because of the Bank's financial strength and strong earnings. Our organization relies on these funds to build affordable housing in our communities.

The Orange County Housing Trust (OCHT) is a new program administered by Neighborhood Housing Services of Orange County to provide low cost financing for first-time buyers as well as multi-family housing to support very low to moderate income residents. These funds will only work in the high priced Orange County market if programs like the Bank's continue to be strong. We anticipate that the OCHT will help create 1,500 affordable units and 300 first-time homebuyers in Orange County in the next five years. Many of these units and buyers will also need assistance from the AHP grants.

Funds for the Bank's AHP are made possible through the borrowing activities of its members. The proposed rule, with its requirement to increase retained earnings by \$562 million and thereby decrease the dividends available to members, is likely to make membership in the Bank less attractive for some current members. The proposed rule would require the combined FHLBanks to increase retained earnings by over \$3 billion, according to a Bank estimate. Some members, particularly larger ones, may choose to borrow less and, therefore, reduce the profitability of the Bank, and consequently the net earnings that support the AHP.

106 W. Linden Ave., 2nd Floor, Anaheim, CA 92805
Tel: 714.490.1250 • Fax: 714.490.1263
www.ochousingtrust.org

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The proposed regulation may also limit the ability of the Bank to provide additional voluntary contributions for affordable housing and community economic development initiatives, in addition to supporting the AHP.

We are especially concerned that the Finance Board does not seem to have devoted sufficient time to evaluating the impact of the proposed rule on the AHP and other voluntary contributions, which rely on FHLBank earnings for their funding. The proposed rule does not include any such analysis, despite the likelihood that the rule would cause a reduction in Bank earnings and, therefore, funds available for the AHP.

The overall impact of the proposed rule could be particularly adverse in this period of increasing mortgage rates and reduced federal funding for housing. It would be unfortunate if the enactment of this proposed rule caused families to be shut out of the housing market due to their inability to afford higher mortgage rates.

I urge you to withdraw this proposed rule. Its impact could be extremely damaging to our work in Orange County and similar organizations nationwide that are working to provide affordable housing opportunities to families in need. Thank you for your consideration of these comments.

Sincerely,



Ken Mutter
Chief Operations Officer