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July 12, 2006

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

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

Dear Sir or Madam:

This letter is in response to the Federal Housing Finance Board's (FHFB) recent proposed rule restricting excess stock and establishing minimum retained earnings requirements for the Federal Home Loan Banks (FHLB). As a member of the Federal Home Loan Bank of Atlanta, we depend on the safe, sound, and stable FHLB system to provide products and programs to meet the needs of our businesses and communities in North Carolina. We urge the FHFB not to go forward with the rule as proposed due to the following:

- A safe and sound FHLB system is vitally important to community banks that depend on their FHLBs for liquidity, long term funding, a secondary market option, and other important products and services.

- We oppose the rule proposed by the FHFB that would require the Federal Home Loan Banks to build retained earnings, and limit excess stock. The proposal has broad immediate and long-term implications to the FHLBs, their members, and the communities they serve. We urge the FHFB to withdraw the proposal and reissue it as an Advance Notice of Proposed Rulemaking instead of a Proposed Rule to enable the FHFB to enter a discussion of the proposal with the FHLBs, FHLB members and other interested parties.

- The Gramm-Leach-Bliley Act of 1999 called for significant changes to the capital structure of the FHLBs with new, more permanent member stock. The FHLBs have spent several years and significant dollars developing these plans, plans that have required FHFB approval for implementation. Each FHLB developed its plan based on its specific situation and the needs of its members. Any changes to the capital structure should be consistent with the 1999 Act. Retained earnings

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policies should be part of the capital plan and based on the risk profiles and business plans of each individual FHLB, not on a formula applied across the system without regard to the varied risks of an individual FHLBs or of asset classes.

- The FHFB has stated that all FHLBs are adequately capitalized. Therefore, each FHLB should be given a reasonable period of time to increase retained earnings if needed, so as not to cause unnecessary disruptions to their business or that of their members.

- While the primary reason most community banks join FHLBs is for access to advances, dividends paid by stock are an important benefit that lowers their overall cost of funds and benefits consumers.

- Some FHLBs project that they would meet the minimum retained earnings requirement by the time a final rule is expected, but it would take months or years for others to meet it. Some FHLB members could see significant, prolonged cuts in their dividends. We are concerned that if the proposal goes forward as proposed, it will cause financial institutions with multi-district memberships to shop their advance business among FHLBs to obtain the highest dividend payouts. Or the largest FHLB members with other funding options may flee the system for less costly funding as steep dividend cuts raise their all-in cost of funds. In either case, community banks that do not have such choices will be significantly disadvantaged.

Again, I urge you to reconsider this proposal that is vitally important to community banks and the people we serve across the United States.

Sincerely,

Peggy C. Melville

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