

## SOUTHERN MAINE AFFORDABLE RENTAL HOUSING COALITION

*-working to increase the supply of affordable rental housing in Southern Maine -*

July 10, 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

On behalf of the Southern Maine Affordable Rental Housing Coalition (SMARHC) I am writing to express concern about the effect on affordable housing of the above-referenced rule proposal. SMARHC is an ad hoc group of 20 – 25 Southern Maine housing leaders that has been working together since 2000 to respond collectively to address the affordable housing crisis in Southern Maine.

Those of us who create and operate affordable housing in Maine are concerned that the rule will reduce the profitability of the Federal Home Loan Bank (FHLB) system as a whole and thereby reduce the overall contributions to the Affordable Housing Program (AHP). The proposed rule would require each FHLB to meet a fixed formula minimum retained earnings standard of \$50 million plus one percent of non-advance assets. Over three years, FHLB would have to add over \$2 billion to their retained earnings as a result of this proposal. We are concerned that the required increases to the retained earnings of the FHLBs will lead to significant reductions in AHP contributions.

The proposed rule also limits dividend payments which could result in large members leaving the FHLB system. Many of these large members have direct access to capital markets. If the cost of FHLB advances increase due to dividend limitation, these members are likely to curtail their use of FHLB advances or even leave the system as a whole. This in turn would result in a decrease in FHLB assets and earnings.

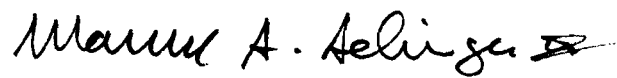
Ten percent of FHLB profits are dedicated to AHP. If large members leave the FHLB system or curtail activity, there would be a corresponding decrease in profits and thus AHP funds.

Furthermore, a decrease in volume of the system could result in a higher cost of advances. Smaller members have no other access to the long-term debt markets. Raising the cost of FHLB credit to small financial institutions will directly affect the amount of affordable housing lending these members can do. FHLB advance funding is used to finance many of the permanent mortgages on affordable rental developments in Maine, which can scarcely afford an increase in their borrowing costs.

Federal Housing Finance Board  
July 10, 2006  
Page 2

While we understand the intent of the proposed rule is to strengthen the FHLB system, we think the better approach is to strengthen the system more gradually so that the impacts to the system would be less severe and would be known far in advance. We are concerned that the proposed changes are too drastic and are being considered too quickly. We respectfully request that you ask the Finance Board to withdraw the proposed rule and instead issue an Advanced Notice of Proposed Rulemaking to allow the proper time needed to understand the potential effects of such changes on the supply of affordable housing in Maine and the country as a whole.

Sincerely,

A handwritten signature in black ink that reads "Maurice A. Selinger, III" with a stylized flourish at the end.

Maurice A. Selinger, III, Chair

Cc: Senator Olympia Snowe  
Senator Susan Collins

O:\MAS\Community Work\SMARHC\letter July 10 2006 to FHLBB .doc