MURPHY BANK

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

Re: FHFB Proposed Rule; RIN No. 3069-AB30; Docket No. 2006-03

Murphy Bank is pleased to offer the following comments on the proposed rule by the Federal Housing Finance Board on excess stock restrictions and retained earnings requirements for Federal Home Loan Banks.

- Federal Home Loan Bank membership is extremely important to community banks. It is a major source of liquidity and long term funding which permits community banks to make loans to the small businesses in their local areas.

- The California Independent Bankers opposes the rule proposed by the FHFB that would require the Federal Home Loan Banks to build retained earnings, limit excess stock and stop paying dividends in stock. The proposed rule would adversely impact 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, their members and other interested parties.

- The Graham-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 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.

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- 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.

- FHLBs should continue to have the option to pay dividends in stocks, to enable their members to enjoy the tax advantages of that payment form as determined by their capital plan. Appropriate limits for excess stock can be used to alleviate regulatory concerns that excess stock is used for riskier/higher return assets or activities that are not mission-related.

For these reasons, the Murphy Bank urges the FHFB to withdraw its proposal and reissue it as an Advance Notice of Proposed Rulemaking.

Cordially,

James R. Templeton

James R. Templeton, Chairman