

July 12, 2006

Federal Housing Finance Board
1625 Eye St., N.W.
Washington, D.C. 20006
Attention: Public Comments

Via E-mail at: comments@fhfb.gov

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

I thank the Federal Housing Finance Board for the opportunity to comment on the proposed rule published in the Federal Register on March 15, 2006, regarding changes to regulations governing the excess stock and retained earnings of the Federal Home Loan Banks.

I believe that the Federal Housing Finance Board's proposed rule to change the capital structure of the FHLBanks by requiring a minimum level of retained earnings and restricting the amount of excess stock that an FHLBank can accumulate may have an adverse effect on the affordable housing and economic development community.

I am a consultant representing several affordable housing developers in California. I oppose this rule change and the detrimental effects this proposed rule may have on my client organizations.

More specifically:

- A member's profitability would be adversely affected for several years by the significant cut in the dividends received as earnings are retained and the resulting increase in the all-in cost of advances.
- By reducing members' profitability, the proposed rule would reduce the amount of funds available for members to lend in their own communities.
- Each year, the Banks set aside 10% of our net income for the Affordable Housing Program, to be awarded in the following year.
- The proposed rule would reduce the amount of funds available for the AHP and other community investment initiatives should the Bank's profitability decrease if members decide to borrow elsewhere because of the increased cost of doing business with the Bank.
- The AHP provides grants and subsidized loans to create affordable rental and homeownership opportunities for lower-income households. Since the inception of the AHP, the Bank has awarded \$400 million in AHP grants to create 70,000 affordable housing units in Arizona, California, Nevada, and other states served by our members. Overall, more than \$2.5 billion in AHP funds have been contributed by the FHLBanks to affordable housing since the program's inception.
- The proposed rule reduces the value of FHLBank membership by increasing the all-in cost of advances.

- By making advances less attractive, the FHLBanks will become less safe and sound.
- Defining net income available for dividends based on current quarter GAAP net income creates a disincentive to retain earnings that are the temporary result of accounting volatility and, in fact, promotes dividend volatility.
- The proposed rule has the potential to signal to FHLBank members that a crisis must be imminent.
- The proposed rule has the potential to create instability within the FHLBank System by causing some members to leave the FHLBank System, reduce their use of advances significantly, or shift their borrowings to different FHLBanks.

Most important to me and my clients, the proposed rule may cause a significant reduction in the amount of funds available for the Affordable Housing Program and other FHLBank initiatives to foster affordable housing and community economic development.

Because the proposed regulation would significantly change the capital structures of the FHLBanks, it is imperative that the objectives, benefits, and potential adverse consequences of the proposed changes be carefully weighed and fully understood prior to implementation. The appropriate way to address any valid capital concerns is to request modification of a particular FHLBank's capital plan. Given the critical role played by the FHLBanks in the nation's housing finance system, these proposed regulatory changes deserve to be fully debated by all affected parties.

I urge the Finance Board to withdraw the proposed regulation on excess stock, stock dividends, and retained earnings and issue an Advanced Notice of Proposed Rulemaking.

Thank you,

Gwendy Silver Egnater
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