



July 12, 2006

Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006-4001
Attention: Public Comments

Via Electronic Mail: comments@fhfb.gov

RE: Federal Housing Finance Board Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks
RIN Number 3069 AB-30; Docket Number 2006-03

Dear Sir or Madam:

Washington Mutual appreciates the opportunity to comment on the proposed rule referenced above. This proposed rule would fundamentally change the capital structure of the Federal Home Loan Banks by imposing new excess stock restrictions and retained earnings requirements on the FHLBs.

Because we believe these fundamental changes pose the procedural and substantive concerns noted below, we respectfully ask the Federal Housing Finance Board (FHFB) to withdraw the proposed rule. If the FHFB believes that the FHLB capital structure should be updated or improved to reflect changing market conditions or unexpected developments, such changes should be made through the capital rulemaking and approval process required by law. In that regard the FHFB should issue an Advance Notice of Proposed Rulemaking (ANPR), so that the potential impacts of any capital change could have the benefit of greater discussion and understanding.

Washington Mutual's two depository institutions are members of the FHLB System and have a strong interest in ensuring the System's safety and soundness. Unfortunately, the proposed rule would not advance this important goal. It would, though, make it more difficult for the FHLBs to accomplish their statutory mission of providing housing finance and affordable housing to Americans. The proposal also would be unfair to existing FHLB members who have relied on the capital and ownership structure that Congress carefully created and that the FHFB ratified when it adopted its current capital regulations and approved individual FHLB capital plans.

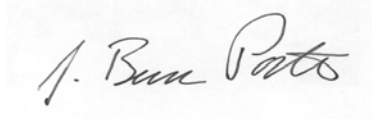
We are especially concerned with the part of the proposal that seeks to require FHLBs to hold an amount of retained earnings sufficient to avoid FHLB stock impairment. Under such a requirement, FHLB stock would not be allowed for regulatory purposes to serve as a cushion to absorb FHLB losses. The absorption of losses is a fundamental function of regulatory capital. This denial of the capital characteristics of FHLB stock is inconsistent with the Gramm-Leach-Bliley Act capital provisions and with members' expectations of how stock and retained earnings would be treated.

We certainly understand the desire to see that FHLB stock is not impaired and we support timely FHLB repurchase of excess stock. However, there are other ways for the FHFB to advance these goals without violating the statutory FHLB capital regime, upsetting members' ownership interests, and crippling the FHLBs' mission.

In conclusion, it is important to note that thousands of FHLB member financial institutions have committed more than \$45 billion dollars to capitalize the FHLBs. Any reforms that impact their stock holdings, their dividends, and their retained earnings deserve a longer discussion and greater analysis from the FHFB, the FHLBs, the member shareholders and the public than provided for under the proposed rule. Therefore, we ask the FHFB to withdraw it and to allow consideration of this issue through an ANPR.

Thank you for considering these views.

Sincerely,

A handwritten signature in black ink that reads "J. Benson Porter". The signature is written in a cursive style and is positioned above the typed name.

J. Benson Porter
Executive Vice President, Chief Administrative Officer