FHLBank
PITTSBURGH

July 12, 2006

Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006

ATTENTION: Public Comments

RE: Federal Housing Finance Board, Proposed Rule: Excess Stock and Retained Earnings Requirements for the Federal Home Loan Banks
RIN Number 3069 – AB30, Docket Number 2006-3

To Whom It May Concern:

Thank you for the opportunity on June 23 to present oral comments with regard to the Federal Housing Finance Board's ("Finance Board") proposed rule regarding excess stock and retained earnings. We are providing this summary of our remarks as a supplement to our comment letter previously filed with the Finance Board on June 23, 2006.

As we understand the proposed rule, the Finance Board is not suggesting that the total capital held by Federal Home Loan Banks ("FHLBanks") is inadequate. Instead, it is concerned that the amount of capital in a form other than capital stock is inadequate. The Finance Board has expressed the view that a serious loss at an FHLBank with capital primarily in the form of capital stock would result in an impairment of that capital stock that would, in turn, cause further issuance of capital stock to be impractical. Accordingly, the proposed rule would require the FHLBanks to limit cash dividends until a minimum level of retained earnings has been established.

The position expressed at our meeting on June 23, 2006 is as follows:

1) FHLBank Pittsburgh agrees with the general objective of the proposed rule so far as the need for each FHLBank to have a minimum level of retained earnings sufficient to cover a reasonable level of unanticipated losses (anticipated losses are to be covered by loss reserves).

2) In recognition that the only way to build retained earnings in the ordinary course is to have profits that are not distributed in the form of dividends, FHLB Pittsburgh does not object to some required retention of earnings until an adequate level of retained earnings is established.

3) Because of the fact that FHLBanks are organized as cooperatives where stock is purchased and sold at par value (i.e., there is no appreciation potential), building retained earnings that are designed to be held by the FHLBanks until liquidation will cause there to be a direct and, as a practical matter, unrecoverable cost to the member. If member institutions receive a diminished current return on this capital with no mechanism for receipt of retained FHLBank earnings until

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liquidation, members will correctly calculate that the cost of accessing capital markets through the Bank System has increased.

4) By increasing the cost to member institutions of utilizing the Bank System to access capital markets, there is a real risk that large, sophisticated members may utilize other means to access the capital markets. This will, in turn, do damage to the entire Bank System, particularly the smaller members who will be left with burden of carrying all Bank System costs. As in virtually all cooperative structures, small users are beneficiaries of proportionate sharing of costs with large users.

5) To accomplish the Finance Board's objectives in the proposed rule while simultaneously avoiding the potentially adverse results to member institutions, FHLBank Pittsburgh proposes that the rule be modified so as to explicitly permit an FHLBank to attribute the build-up of retained earnings to the members which contributed those earnings, attribution would be in the form of a record of allocation of a year's earnings with each member receiving a written notice of the dollar amount attributed to the member's account. Even though attributed, the earnings would be classified as retained earnings, to be charged with any losses before any impairment of FHLBank capital stock.

   After a period of years required to build adequate levels of retained earnings, the earliest years attributable amounts could be converted to Class B stock. This approach would accomplish two objectives: (i) permit a build-up of retained earnings to cushion any losses impairing capital stock, and (ii) allow members to receive a distribution of these earnings in a reasonable time frame. For example, an FHLBank could have a program of retaining attributed retained earnings for five years followed by a conversion of the retained earnings to Class B stock.

6) A further advantage to this program would be longer duration capital for the FHLBanks. In the above example, a program providing for five years of retention of attributed retained earnings followed by conversion to Class B stock would automatically give the FHLBank ten years of capital verses the five years provided with the sale of Class B stock today. The greater capital duration would provide a better match to longer lived assets on an FHLBank's balance sheet.

Thank you again for the opportunity to convey these thoughts.

Respectfully,

Dana A. Yealy

Dana A. Yealy
Managing Director, General Counsel
and Corporate Secretary