ELI LILLY FEDERAL CREDIT UNION

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July 12, 2006

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

Attn: Public Comments

Re: Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks

Eli Lilly Federal Credit Union is a member of the Federal Home Loan Bank of Indianapolis and I am writing to comment on the proposed change referenced above. The regulation includes a limit on the excess stock ownership, a minimum retained earnings requirement and restrictions on dividend payments.

The proposal imposes a dividend limitation of 50% of earnings in the event that a Federal Home Loan Bank has not met the proposed retained earnings requirement. This reduction is at the expense of its members' earnings and will increase the overall borrowing cost for the members. Alternatively, members may voluntarily withdraw from the FHLBank, thus creating more risk for the FHLBank and its remaining members. If the Finance Board decided to finalize this rule, the payout limitation on dividends should be reduced to allow the FHLBanks more time to meet the retained earnings requirement.

The proposal creates an unintended consequence. Holding more retained earnings than needed from a risk perspective deleverages the FHLBank, reduces shareholder returns, and may cause member withdrawal. Rather than use the proposal's one-size fits all formula, the Finance Board should adopt a risk based approach tying the level of retained earnings to the risk on the balance sheet. This is more in line with the other federal banking regulators and the Basel capital studies. Given this, it would be best to withdraw the current proposal and consider a future risk-based capital rule making.

In summary, we believe that the Finance Board should create a risk-based capital plan for each bank and allow the banks more time to build retained earnings by reducing the dividend limitation.

Sincerely:

Lisa A. Schlehuber

Lisa A. Schlehuber
Chief Executive Officer