

July 12, 2006

Federal Housing Finance Board  
1625 Eye Street NW  
Washington, D.C. 20006  
Attention: Public Comments

Regarding Proposed Rule: Excess Stock Restrictions and Retained Earnings  
Requirements for Federal Home Loan Banks

To Whom It May Concern:

This letter is written to express our opposition of the Proposed Excess Stock and Retained Earnings Rule. As a member of the Federal Home Loan Bank of Cincinnati, we believe the proposed rule will be harmful to the financial health of the organization.

The Federal Home Loan Bank of Cincinnati is a well capitalized institution, with a low risk profile, that will be negatively affected by the arbitrary formulas in the proposed rule.

We believe that the proposed rule will have unintended consequences that are outlined below:

1. Puts at risk the **AAA credit rating** the market has given the Federal Home Loan Bank by forcing the Bank to lower its liquidity, capital and lower profitability to meet specific regulatory mandates.
2. Deteriorates the value of our membership with the Federal Home Loan Bank by:
  - a. Increasing the cost of doing business through increased borrowing costs.
  - b. Creates a tax-event on excess stock redeemed by the Federal Home Loan Bank to meet regulatory requirement.
  - c. Eliminates tax-deferrals on future dividends by prohibiting the Federal Home Loan Bank from paying stock dividends.
3. Additionally, the Rule will reduce members' participation in the Affordable Housing Program and other voluntary housing programs, such as New Neighbor and American Dream Homeownership Challenge, due to declining profits and the retained earnings shortfall.

In summary, the proposed rule would result in a reduction in the value of our membership in the Federal Home Loan Bank of Cincinnati and raise our cost of doing business.

Sincerely,

Richard K. Smith  
Senior Vice President, CFO & Treasurer