First Bank
OF GEORGIA

Patrick G. Blanchard
Vice Chairman of the Board

FAX & MAIL

July 10, 2006

Federal Housing Finance Board
Attention: Public Comments
1625 Eye Street, N. W.
Washington, DC 20006

Gentlemen:

We have received correspondence from Mr. Ray Christman, President & CEO of the Federal Home Loan Bank of Atlanta concerning the proposed rule making changes on the capital structure for the various FHLB banks which also requires a minimum of retained earnings and further restricts the amount of excess stock that the FHL Bank can accumulate.

We have reviewed these issues and feel it important to respond as a bona fide customer of the FHL Bank of Atlanta.

During the past several years, we have utilized a number of the services of the FHL Bank to provide liquidity and additional earnings for our bank and company. We have also found it beneficial to purchase stock in the FHL Bank of Atlanta.

We are writing today to state that in our view the proposed rule making would require the FHL Bank to build retained earnings based on a measure that does not reflect the underlying risk associated with specific asset classes. Furthermore the bank would be required to build retained earnings against low risk assets such as cash, overnight federal funds and tangible assets.

Our bank and company share a concern that the proposed rule making appears to inadvertently reward FHL Banks having relative high risk in their asset profiles and punishes the FHL Banks having relatively safe assets.

In addition, it appears that the present rule making does not specifically call for a deadline for reaching the required retained earnings minimum.

Should the proposed rule making be modified to provide for a specific deadline for achieving the minimum amount of retained earnings by all FHL Bank?

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If the FHL Bank remain on course to achieve this retained earning minimum by a stated deadline, should the rule of non-advanced assets were more narrowly defined to exclude or at least reduce the retained earnings percentage for certain low risk asset qualities?

The bank may be able to achieve this because of added reduction in dividends?

We hope that you consider these questions and respond to us on your findings.

Sincerely,

Patrick G. Blanchard
Vice Chairman of the Board

PGB/lml

Question and Answer about Proposed Retained Earnings, Excess Stock Rule

1. **What is the Finance Board proposing?**

   The Finance Board published a proposed rule on March 15, 2006, which would change the capital structure of the FHLBanks by prescribing a minimum amount of retained earnings, restricting excess stock, and prohibiting the payment of dividends in the form of stock. More specifically:

   - An FHLBank would be required to hold retained earnings of at least $50 million plus one percent of its prior quarter's average non-advance assets.
   - Dividends would be limited to no more than 50 percent of net income until an FHLBank reaches its required level of retained earnings.
   - An FHLBank's excess capital stock would be limited to no more than one percent of its total assets.
   - An FHLBank would not be permitted to sell capital stock to a member in excess of its minimum capital stock requirement.
   - An FHLBank would be prohibited from paying dividends to its members in stock.

2. **What is the Bank's current retained earnings policy?**

   In March 2004, the Bank's board of directors adopted a capital management policy that includes both a target amount of retained earnings and a plan to enable the Bank to reach the target amount of retained earnings. The target is the sum of the respective amount required for each of the following four risks components: core economic income risk, GAAP income risk, operations risk, and credit risk. The Bank has actively increased the size of its retained earnings in recent years, and as of December 31, 2005, it had retained earnings totaling $328 million, which exceeds the $220 million target amount established by the board of directors as of November 30, 2005. The board of directors reviews this target on a quarterly basis and will update it as necessary to reflect changes in composition of the Bank's assets.

3. **How would the proposed rule affect the Bank's retained earnings and dividend payments if it were approved in its current form?**

   Based on preliminary analysis and information currently available, the Bank anticipates that it would be in compliance with the proposed retained earnings requirement after the completion of two quarters following the Finance Board's adoption of the rule. During such time, the Bank's dividends would be significantly less than those historically paid by the Bank. Furthermore, future dividend payments after the Bank initially satisfies the minimum retained earnings requirement may be below historic levels in order to continue to comply with the proposed rule's minimum retained earnings requirement.

4. **What modifications of the proposed rule might result in building more retained earnings without a significant reduction in dividend payments?**

   If the proposed rule were modified to provide for a specific deadline for achieving the minimum amount of retained earnings by all FHLBanks without a specific limitation on dividends during such period (so long as the FHLBank remains on course to achieve its retained earnings minimum by the deadline), or if the group of "non-advance assets" affected were more narrowly-defined to exclude, or at least reduce the retained earnings percentage for, certain low-risk asset classes, the Bank might be able to achieve the target without a reduction in dividend.

5. **How would the proposed rule affect the declaration and timing of dividend payments?**

   The proposed rule would require that dividend payments be declared and paid to members based upon actual net income results and only after the close of the calendar quarter to which the dividend pertains. This timing departs from the Bank's historical practice of paying dividends on the first business day following completion of the quarter. The proposed rule would delay dividend payments until later in the month following a quarter's end.

6. **How would provisions of the proposed rule related to excess stock and the paying of dividends in the form of stock affect FHLBank Atlanta?**

   Given the Bank's current policies and procedures with respect to excess stock, we do not believe that the proposed excess stock limitations would affect us. Further, the Bank has not paid stock dividends in recent years, and we do not believe that the prohibition on stock dividends would pose a problem for us.

7. **The Finance Board has said it is concerned about the possibility that the par value of the capital stock of the FHLBank System would be impaired. Is FHLBank Atlanta currently adequately capitalized?**

   Yes. In 1999, Congress passed the Gramm-Leach-Bliley Act, which imposed a new capital structure on the FHLBanks and required each FHLBank to develop a capital plan – one that would provide the amount of permanent and total capital needed to meet specific risk-based requirements. FHLBank Atlanta's new capital plan was implemented on December 17, 2004. At year-end 2005, our regulatory capital-to-assets ratio was 4.35 percent, which exceeds the 4.00 percent required by the Gramm-Leach-Bliley Act. All of our capital stock is permanent capital that is redeemable only after a five-year waiting period. The Bank does not rely on the voluntary purchase of stock beyond membership and activity requirements to satisfy its capital requirements. In addition, FHLBank Atlanta is rated triple-A by Moody's Investors Service and Standard & Poor's. In adopting the proposed rule, the Finance Board specifically stated that it believed the FHLBanks' overall capital levels remain adequate and the risk of capital insolvency at any FHLBank in the foreseeable future is de minimis.

8. **What are the Bank's primary concerns about the proposed rule?**

   First, the Bank would be required to build retained earnings based on a measure that does not reflect the underlying risk associated with specific asset classes. For example, as proposed, the Bank would be required to build retained earnings against low-risk assets, such as cash, overnight federal funds, and tangible assets. We are concerned that the proposed rule may inadvertently reward FHLBanks having relatively risky asset profiles and punish FHLBanks having relatively safe asset profiles

   Second, the proposed rule does not specify a deadline for reaching the required retained earnings minimum and prescribes the same dividend limitation rate for each FHLBank, no matter how far the FHLBank is from achieving the minimum.

   Please see the answers to Question 4 for a discussion of the proposed modifications recommended by the Bank to address these concerns.

9. Will the Bank share with members its comment letter to the Finance Board?

The Bank is analyzing the financial, legal, and operational implications of the proposed rule and intends to submit its comment letter to the Finance Board prior to July 13, 2006. We intend to post a copy of the comment letter on our website (www.fhlbatl.com) as soon as it is available. In the meantime, if you have questions or concerns about the proposed rule, please call the Bank's First Vice President of Government and Industry Relations, Eric Mondres, at 202-638-3002.

10. When will the proposed rule become final?

We cannot predict when or whether the Finance Board will approve and implement a final rule. Any final rule, if adopted, may be different from the proposed rule.

Some of the statements made in this letter may be "forward-looking statements," which include statements related to the Bank's anticipated compliance with the proposed retained earnings requirement and other anticipated effects of the proposed rule, and include other statements with respect to the Bank's beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance. These statements involve known and unknown risks, uncertainties, and other factors, many of which may be beyond the Bank's control, and which may cause the Bank's actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by the forward-looking statements.

*The forward-looking statements may not be realized due to a variety of factors, including future economic and market conditions; changes in demand for advances or consolidated obligations; changes in interest rates; legislative and regulatory changes; the registration process with the SEC; political, national, and world events; and adverse developments or events affecting or involving other FHLBanks or the FHLBank System in general. Additional factors that might cause the Bank's results to differ from these forward-looking statements are provided in detail in our filings with the Securities and Exchange Commission, which are available at **www.sec.gov**.*