



July 12, 2006

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

Via electronic submission: 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-AB30
Docket Number 2006-03

Members of the Board,

We write respectfully to express our concern and opposition to the proposed capital rule referenced above and the deleterious effect it could have on affordable housing. The proposed rule would require each FHLBank to meet a fixed formula minimum retained earnings standard of \$50 million plus one percent of non-advance assets. Over three years, FHLBanks would have to add over \$2 billion to their retained earnings as a result of this proposal. Estimates of the impact of this requirement include compulsory increases of \$500 million for the FHLB of San Francisco, \$280 million for the FHLB of Seattle, \$180 million for the FHLB of Cincinnati and \$150 million for the FHLB of Pittsburgh.

Our opposition to the proposed capital rule stems from the very real potential that the rule will reduce the profitability of the FHLBank System as a whole and thereby reduce the overall contributions to the Affordable Housing Program (AHP) and other housing programs. As you know, 10 percent of FHLBank profits are dedicated to the AHP. In 2005, a total of \$280 million in AHP funds were awarded, funding hundreds of affordable housing units. If there is a decline in the number of large members, and thus profits, the Affordable Housing Program will be significantly curtailed.

As a case in point, already the FHLB of Cincinnati has suspended two important housing programs in anticipation of reduced earnings. In April, the New Neighbors and the American Dream Homeownership Challenge programs were suspended. The New Neighbors program established a \$15 million grant fund to help families displaced by Katrina and other hurricanes in 2005 move into permanent housing. Consistent with the Bush Administration goal to increase minority homeownership rates, the American Dream program was established specifically to assist minority families and those with special needs to purchase a home. Those programs have been highly successful and are jeopardized by the proposed rule.

The proposed limitation on dividend payments could have the consequence of driving large members from the FHLBank System. Many large members can access the capital markets themselves and as the “all-in” cost of FHLBank advances increases due to dividend limitation, these members could decrease their usage of FHLBank advances or even leave the System. This could result in the shrinking of FHLBank assets and earnings.

Finally, a decrease in volume of the System will result in a higher cost of advances. Smaller members have no other access to the long-term debt markets. Raising the cost of FHLBank credit to small financial institutions will directly affect the amount of affordable housing lending these members can do. It could also raise borrowing costs for working families who are struggling to find mortgage funding. In light of the recent consumer price index information release, there does not appear to be an end in sight to interest rate increases. Higher borrowing costs, combined with an interest rate increase, could serve to end the dream of homeownership for many Americans.

In light of these possible impacts, we respectfully request that the Federal Housing Finance Board withdraw the proposed rule and issue an Advanced Notice of Proposed Rulemaking in order to better study the potential effects of such changes on the supply of affordable housing in our nation. Thank you for your consideration.

Sincerely,

Steven A. Brookner
President & CEO