



July 5, 2006

Federal Housing Finance Board  
1625 I Street, NW  
Washington, D.C. 20006

RE: Public Comment on Proposed Rule #2006-03

Dear Members of the Board:

First Federal of Northern Michigan is a longstanding customer and shareholder of the Federal Home Loan Bank of Indianapolis and I believe that Proposed Rule #2006-03 will adversely impact our Bank and the FHLBank.

We depend on the credit services of the FHLBank for funding community housing, community development activities and for liquidity management. The proposed requirement limiting dividend payout would reduce our earnings and increase our overall cost of borrowing. Add to this the affect of multiple years of the proposed limits on dividend payouts and we will experience a serious depreciation in the great relationship we have with our FHLBank. Community banking in our economically challenged State of Michigan is already challenging enough without adding this extra burden at this time.

This proposal creates unintended consequences. Holding more retained earnings than needed from a risk perspective deleverages the FHLBank, reduces the shareholder returns, and ironically 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 balance sheet. This is more in line with the other federal banking regulators and the Basel capital studies.

Please consider the serious affect that this proposal will have on community banks such as ours, and the communities we serve, and withdraw the current proposal and consider future risk-based capital rule making. I appreciate the opportunity you have provided to comment on this proposal.

Sincerely,

A handwritten signature in cursive script that reads "Martin A. Thomson".

Martin A. Thomson  
Chief Executive Officer

Cc: Martin L. Heger, FHLBI