Terry Allgood
President
Chief Executive Officer

Leitchfield Deposit Bank
& TRUST COMPANY

July 6, 2006

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

Attention: Public Comments
Excess Stock Restrictions and Retained Earnings Requirements the
Federal Home Loan Banks
#3069-AB30

I am writing to express my deepest concern for the potential impact of your proposed capital rule on the Federal Home Loan Bank of Cincinnati. I feel that your proposed rule is a "knee jerk" reaction to the problems created by Fannie Mae and Freddie Mac. The GSE that truly needs its capital structure and the strength of its stockholders scrutinized is the Farm Credit System, who had impaired capital in the late 80's and was required to receive government assistance to avoid default on issued debt. I feel the enactment of your proposed capital rule could be one of the most serious errors in banking since the thrift debacle of the 1980's.

The FHLB provides products to the community banks that are not available through any other source. The FHLB is an invaluable source of long-term funding options for the structuring of fixed rate financing for portfolio 1-4 family mortgage loans. These advances are necessary to mitigate interest rate risk and serve our customers who "fall through the underwriting cracks" for a conventional secondary market mortgage. Portfolio fixed rate mortgages are frequently the only fixed option available in rural areas due to the inability of most appraisals to meet Fannie and Freddie underwriting criteria that was established primarily for metropolitan areas. The FHLB Mortgage Purchase Program has allowed community banks to also offer a secondary market mortgage to those who chose by providing the community bank a means to assume the risk for an underwriting weakness in the appraisal area. The elimination of any of these products would result in many rural residents being unable to obtain an affordable fixed rate mortgage and leaving them vulnerable to predatory lenders. .

I do not need to reiterate the positive impact FHLB has had on low-income home ownership. Without FHLB, the make up of home ownership would look very different and require a larger assistance by direct Federal funding. I can't say enough about the hundreds of low-income, disabled, and elderly that have been provided quality affordable housing that they would not had available had it not been for the affordable housing advances and grants from the FHLB. The requirement for FHLB to retain a larger per cent of earnings would certainly reduce the amount of funding available for these programs. This bank is a strong supporter and participator in these programs.

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Lastly, I fail to see the rationale of reducing risk to the system by adopting your proposed capital rule. Replacing excess stock with debt would not strengthen the FHLB but would create a much higher leveraged entity that would be more vulnerable to adverse economic conditions. As long as the banks have a substantial investment at risk, they will be more inclined to monitor the operations and strength of the FHLB more so than in a role as a mere customer of the FHLB. Eliminating or reducing dividends in order to rapidly increase retained earnings will result in a mass exodus of members in particular those that have stock but do not regularly utilize FHLB products or services.

As you are aware, we banks are examined and reexamined. I have been in banking for almost 30 years and have never had any supervisory agency indicate that there is too much capital of any form, stock or retained earnings. I sincerely urge you to withdraw your proposed capital rule for the FHLB's. The enactment of this rule will most certainly result in a serious adverse affect on the FHLB's, home ownership, and the banking industry. I thank you for reading my comments.

Sincerely,

Terry Allgood

Terry Allgood
President/CEO