



Indiana Bankers Association
IBA Foundation Inc.
6925 Parkdale Place
Indianapolis, IN 46254-4673

July 11, 2006

Federal Housing Finance Board
1625 Eye Street, N.W.
Washington D.C. 20006
Attn: Public Comments

<http://www.comments@fhfb.gov>

Re: Federal Housing Finance Board. Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loans Banks. RIN Number 3069-AB30. Docket Number 2006-03

Dear Sir or Madam:

This letter is written in response to the Proposed Rule regarding excess stock restrictions and retained earnings requirements for the Federal Home Loan Banks. We appreciate the opportunity to comment upon this proposal.

The Indiana Bankers Association is a trade association whose members include both large and small banks located in Indiana. Many of our members are also members of a Federal Home Loan Bank and utilize the services of the FHL Bank, particularly in the arena of affordable housing financing. Thus, the proposal is of interest to our members.

We oppose the proposed rule because we believe it will not accomplish the stated purpose of strengthening the capital structure of the FHL Banks. It may have an unintended consequence of making membership less desirable by potentially diminishing the availability of affordable home loan financing options, thus hurting the viability of the FHL Banks. The potential for disruption occurs when a one-size-fits-all approach is taken with organizations that may, in actual practice, have different needs and requirements for capital and are addressing different economic conditions in varying parts of the country. While it is true that the mission of the FHL Banks is the same across the country, it is not true that the economic conditions in which the various FHL Banks operate is always the same. Permitting each FHL Bank to determine an appropriate level of excess stock and an appropriate level of retained earnings is beneficial.

We encourage the FHFBB to use a risk-based approach when evaluating the operations and capital requirements of each FHL Bank. The other federal financial regulators have recognized that financial institutions operate in varying climates and have varying goals which argue against a one-size-fits-all examination approach. This is not to suggest the prudent management is not necessary- indeed it is. However, given the fundamental mission of the FHL Banks to provide



Indiana Bankers Association
IBA Foundation Inc.
6925 Parkdale Place
Indianapolis, IN 46254-4673

affordable home ownership opportunities through a variety of funding mechanisms and programs, we believe it is imperative that each FHL Bank be able to establish what level of retained earnings and excess stock is appropriate rather than having to meet an arbitrary standard that may result in less money available to meet the mission of the FHL Banks.

We also believe that prohibiting the declaration of stock dividends will have negative tax consequences for members of a FHL Bank, thus making an investment in a FHL Bank less attractive. If financial institutions determine that they can get a better overall return (which can include a consideration of tax consequences), the result of this proposed rule may be lessen interest in membership in a FHL Bank, thus weakening the overall system as opposed to the goal of strengthening the capital system.

We respectfully request that the Proposed Rule be withdrawn. Thank you for your consideration. If you have any questions, please do not hesitate to contact us.

Very truly yours,

Janet P. Oller
Compliance Consultant