CITIZENS SOUTH
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July 10, 2006

Federal Housing Finance Board
Attention: Public Comments
1625 Eye Street, NW
Washington, DC 20006-4061

VIA FACSIMILE to 202-408-2580 and US Postal Service Mail

Re: Federal Housing Finance Board's Proposed Rule: *Excess Stock Restrictions ana Retained Earnings Requirements for the Federal Home Loan Banks* -- 71 Fed. Reg. 50, 13306 (March 15, 2006) Comment Period Expires July 13, 2006

Dear Chairman Rosenfeld:

On May 23, 2006, I wrote to the Honorable Ronald A. Rosenfeld, Chairman of the **Federal Housing Finance Board,** concerning the March 15, 2006, proposed rule of the Federal Housing Finance Board that would change the capital structure of the Federal Home Loan Banks by imposing limits on the amount of excess stock that a Federal Home Loan Bank can have outstanding and by prescribing a minimum retained earnings threshold and by limiting dividend payments to member institutions. Given the importance of the Federal Home Loan Bank of Atlanta to our bank's day-to-day operations and the potential effect that the proposal could have on community banks such as ours, I feel that I should write to you again before the expiration of the comment period.

Specifically, for the reasons outlined below, I ask that you either (1) withdraw the proposed rule; or (2) modify it to (a) take into consideration the risk-weighting of assets held on the Federal Home Loan Banks' balance sheets, (b) establish a specific transition period for the FHLBanks to achieve their retained earnings requirements, and (c) ensure that, during the transition period, no additional limits are imposed on the amount of earnings that can be paid as dividends as long as the FHLBank has established an acceptable plan for meeting and continuing to meet its retained earnings target and is on schedule to do so.

The retained earnings provisions of the proposal most directly affect members of the FHLB system. Under the rule as proposed, 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. The Federal Home Loan Bank of Atlanta currently holds retain earnings in excess of the retained earnings target established by its Board of Directors in March, 2004, and would be in compliance with the proposed retained earnings requirement after the completion of approximately two quarters following the adoption of a final rule. During the transition period, however, FHLB-Atlanta would be limited in the payment of dividends of not more than 50% of quarterly net income. This limitation would result in dividends that are significantly less than those paid in the past. In addition, future dividend payments after the transition period may be adversely affected in order to continue to comply with the proposed rule's continuing minimum retained earnings requirement. Obviously, future dividends by the Federal Home Loan Banks would be substantially reduced under the proposal. The ability to pay meaningful dividends provides a competitive component for banks and thrifts to utilize FHLB advances as a funding source. If dividends are substantially restricted, banks and thrifts will seek other funding alternatives, a measure which may threaten the entire FHLB system.

I urge you and the other members of the Board to withdraw or substantially amend the proposed rule, as outlined above. If the Board believes that a capital restructuring plan is necessary, then please consider these more flexible approaches that minimize the disruptive effect upon member institutions of the Federal Home Loan Banks. I am gravely concerned that reductions in dividend payments by the Federal Home Loan Banks would have unintended consequences for our thrift industry.

Thank you for the opportunity to comment.

Very truly yours,

CITIZENS SOUTH BANK

Kim S. Price
President and Chief Executive Officer

cc: Raymond Christman, President and CEO, Federal Home Loan Bank of Atlanta
Thad Woodard, President, North Carolina Bankers Association, Raleigh