SECURITY BENEFIT℠

July 10, 2006

Federal Housing Finance Board
Attn: Public Comments
1625 Eye Street, NW
Washington, DC 20006-4001

Members of the Finance Board:

I am writing on behalf of Security Benefit Life Insurance Company (Security Benefit), a member and shareholder of the Federal Home Loan Bank of Topeka. As a member and shareholder, we are concerned about the proposed capital plan and the potential consequences it may have on the Federal Home Loan Bank of Topeka. We see the following issues with the proposed capital plan:

1. Stock dividends should not be prohibited. Given the adoption of an appropriate limit on the amount of excess stock, there is no basis to prohibit stock dividends. If an FHLBank controls the amount of excess stock outstanding, no regulatory objective is achieved by banning stock dividends. Furthermore, for some members, stock dividends provide a tax benefit that is an added inducement to be a member of the FHLB system.

2. The limit on excess stock should be higher than one percent of assets. It is unclear as to how the one percent limit was determined for the regulation. A limit greater than one percent would provide increased flexibility for the FHLBank to hold liquid assets and thereby maintain higher liquidity, increasing its ability to operate in a safe and sound manner and better serve its members' fluctuating advance needs.

3. There should be a reasonable phase-in period to meet the retained earnings mandate (REM). The proposed rule would limit dividends to 50 percent of net income immediately if the mandate is not met when the regulation is effective. The 50 percent limitation is severe and restrictive and could significantly hurt a member's income when the safety and soundness of the FHLBank is not in jeopardy. We would recommend a phase-in period (i.e., a three-year implementation period) where dividend restrictions are not imposed if the FHLBank is making reasonable progress in meeting its REM.

4. The REM applicable to money market assets should be reduced. We do not understand the justification for imposing the same retained earnings requirement on money market assets as is required for 30-year, fixed-rate mortgages.

5. Once fully implemented, there should be some flexibility before dividend restrictions are imposed. The proposed rule would impose the 50 percent limitation immediately when an FHLBank failed to meet its REM. This will effectively require an FHLBank to hold substantially more than its REM in order to prevent a violation through normal balance sheet volatility.

6. Clarify that dividends paid and income earned in a quarter are independent. The proposed rule imposes limits on dividends based on a percentage of income earned in a quarter. Standard corporate practice does not tie dividends to income earned in a period (except over the long term), and dividends are generally stable, even though income can be volatile. FHLBank members prefer a stable dividend policy, especially when income can be materially impacted in a single quarter by gains and losses related to SFAS 133.

Overall, we believe a risk-based approach should be taken with regard to any capital plan. Simple rules tend to punish the strong, well-managed entities and, in the end, lead to ineffective capital management. We hope the Finance Board will consider these issues as it contemplates the proposed capital plan.

Sincerely,

Thomas A. Swank

Thomas A. Swank
Sr. Vice President –
Chief Financial Officer and Treasurer