



FLORIDA BANKERS ASSOCIATION

ALEX SANCHEZ
PRESIDENT & CEO

July 10, 2006

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

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

To Whom It May Concern:

There is no question of the value and importance of Federal Home Loan Banks in our banking system, and in particular to the economy of Florida and its financial institutions. Any proposal, therefore, that legitimately raises the possibility of a negative effect on the functioning of the FHLB system should be looked at very closely.

The Federal Home Loan Bank System is significant to Florida Bankers Association members in two important ways. It provides a source for funding and it provides income. Florida is fortunate to have had a strong economy in recent years. Its economy is characterized by the development of independent businesses and by individual entrepreneurs. That economy has been served by financial institutions of all sizes, and in particular by local institutions. These are close to borrowers and their communities and have done an exemplary job of providing capital and services for the individuals and companies in their service areas. There is an important niche that is filled by institutions with a local focus and those institutions are frequently stockholders in the FHLB system. Because many of our local institutions do not have access to the capital markets to the same extent as other institutions the Federal Home Loan Banks are of particular relevance to them.

We have reviewed the proposed rule and many of the comments that have been submitted. Our Board of Directors has met to consider the proposed rule and has in light of its concerns authorized these comments. It is our strong belief that the rule should be withdrawn for further consideration.

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We note at the outset that the issue, adequate capitalization of the Federal Home Loan Banks, is an important one. We support the purpose of the Federal Housing Finance Board's initiative which we understand to be to assure that all the Federal Home Loan Banks are properly capitalized. Our concern is that the specific regimen proposed will unnecessarily impair the level of service the Federal Home Loan Banks can provide to their members.

Specifically we request that the Board withdraw the rule for consideration of the following issues.

Alternative Methods for Determining Retained Earnings Levels. The formula set forth in the proposed rule has the virtue of simplicity, but like many simple answers may not be the best. Some Federal Home Loan Banks, for example Atlanta to which most of our members belong, have formulas that take into consideration the risk based nature of their assets. Where these approaches are sound, they should not be prohibited and replaced with an inflexible standard. We believe there are safe and sound approaches to determining appropriate retained earnings levels that do not restrict the lending and dividend capacities to the extent that the proposed rule will. We think they should be explored.

Methods to Reach Retained Earnings Requirements. The proposed rule appears to set a hard and fast formula for reaching the retained earnings levels. Since each bank starts in a different place it may be able to reach the goals in a longer or shorter time and with more or less likelihood of adversely affecting its members. The Board should consider alternative and more flexible rules for reaching retained earnings goals.

Cost Benefit Analysis. The Board should attempt to determine the extent to which its current proposal will negatively impact the dividends and lending capacity of the Banks and any other way in which the rule will diminish the ability of the Banks to carry out their purposes. The final rule should be fashioned in such a way as to minimize the costs while still achieving the necessary goals.

Technical Issues. We note that some of the commentators have pointed out technical problems. Withdrawal of the rule will permit ample opportunity to clear up any problems.

The proposed rules are of great importance to many of our members. We are fortunate that there is no crisis with regard to the issues raised by the proposed rule and so we are afforded time to reach the best decisions for the long run. We appreciate this opportunity to comment and sincerely hope that the proposed rule will be withdrawn for further consideration.

Sincerely,

A handwritten signature in blue ink, appearing to read "Alex Sanchez", with a long horizontal flourish extending to the right.

Alex Sanchez, President & CEO
Florida Bankers Association