CONNECTICUT BANKERS ASSOCIATION

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President & CEO

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Federal Housing Finance Board
1623 Eye Street, NW
Washington, DC 20006

Attention: Public Comments

Re: Proposed Rule on Excess Stock Restrictions and Retained
Earnings Requirements for the Federal Home Loan Banks

The Connecticut Bankers Association represents 65 banks operating in the State of Connecticut. All our members have concerns about your proposed regulation relating to excess stock and retained earnings. Our three major observations are as follows:

1. **The proposed rule should reflect the diversity of each FHLBanks' risk profile.**

   Each FHLBank today is different, and varies greatly in asset size, business plans, markets, and risk profiles. A retained earnings policy adopted by the Federal Housing Finance Board (FHFB) should reflect both the complexity and diversity of the Bank System. This proposed rule is not tailored to the unique nature of each FHLBank. The proposed rule should set out a logical formula for developing a robust retained earnings policy that appropriately distinguishes between differing FHLBank risk profiles.

2. **The proposed rule should increase the percentage of net income FHLBanks may pay on dividends and allow a longer period to achieve the retained earning minimum.**

   A restriction on paying more than 50 percent of net earnings until such time as an FHLBank attains its retained earnings minimum will increase the all-in cost of borrowing; that is, the pricing of advances together with the level of the dividend.

   If the cost of advances increases or the dividend level drops by too much, members may determine it is not economical to borrow from the FHLBanks. A substantial loss of advances and the resulting sharp drop in net income

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would, in turn, only exacerbate the problem by further delaying eventual compliance with the retained earnings minimum requirement.

Authorizing the FHLBanks to pay a higher percentage of its net earnings in dividends – perhaps 80 percent – and allowing the FHLBanks an extended period to achieve retained earnings goals would satisfy safety and soundness objectives without threatening the FHLBanks and their members.

3. **The proposal would have a substantial adverse affect on smaller financial institutions that are FHLBank members.**

The proposed rule would have an especially adverse affect on smaller members that disproportionately rely on the FHLBanks for their funding sources. Unlike large banks, that are readily able to obtain other funding sources from Wall Street, smaller banks will not be able to cost-effectively tap these liquidity sources as the FHLBank funding becomes less attractive due to the dividend restrictions in the proposed rule.

In conclusion, I would like to thank you for taking the time to listen to a very concerned industry; and hope that the above matters can be resolved.

Sincerely,

Gerald M Noonan

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