NORTHWEST
BANK & TRUST

July 5, 2006

Federal Housing Finance Board
1625 Eye Street, N.W.
Washington, DC 20006
Attention: Public Comments

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

Ladies and Gentlemen:

I am writing to lend my support to the Federal Home Loan Bank of Atlanta with respect to the aforementioned Proposed Rule. I agree with the attached recommendations of President and Chief Executive Officer Raymond Christman and request the Finance Board thoroughly review all options, including the issuance of an ANPR, before modifying the capital structure of the Federal Home Loan Banks.

Your attention to this matter is greatly appreciated.

Sincerely,

Mike Knowles

Michael W. Knowles
President & CEO

Enclosure

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FHLBank
ATLANTA
A FEDERAL HOME LOAN BANK

Raymond R. Christman
President and Chief Executive Officer

June 27, 2006

BY FEDERAL EXPRESS AND EMAIL

Federal Housing Finance Board
1625 Eye Street, N.W.
Washington, DC 20006
Attention: Public Comments

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

Ladies and Gentlemen:

On March 15, 2006, the Federal Housing Finance Board (Finance Board) published a proposed rule that would change the capital structure of the Federal Home Loan Banks (FHLBanks) by requiring a minimum amount of retained earnings and restricting the amount of excess stock that an FHLBank can accumulate. This letter sets forth the comments of the Federal Home Loan Bank of Atlanta (FHLBank Atlanta) with respect to that proposal. We thank you for the opportunity to be heard on this important matter.

FHLBank Atlanta long has viewed retained earnings as a vital component of its balance sheet. Prior to the Finance Board's issuance of guidance on this topic in late 2003, FHLBank Atlanta had built a significant base of retained earnings, totaling $108.9 million as of December 31, 2003. In response to the Finance Board's guidance, FHLBank Atlanta's board of directors adopted a specific capital management policy that includes both a target amount of retained earnings and a plan to enable FHLBank Atlanta to reach the target amount of retained earnings.

Under that policy, each quarter FHLBank Atlanta sets its retained earnings target by calculating the sum of the following four risk components:

- Core Economic Risk. To calculate the core economic risk component, FHLBank Atlanta examines its "pessimistic" case forecast for the rolling 12-quarter period following the then-current calendar quarter. If any core economic operating losses are projected to occur in one or more quarters during the forecast period, the sum of the absolute value of those projected quarterly losses would represent the core economic risk component of the retained earnings target. Projected quarterly profits would not be used to offset projected quarterly losses when calculating this risk component.

GAAP Income Risk. FHLBank Atlanta determines the GAAP income risk component by adding together the following market risk calculations associated with FAS 133/FAS 115 adjustments: macro hedge and purchased options portfolio market risk; "long-haul" advances and consolidated obligations portfolio market risk; "held at fair value" portfolio market risk; and one-month Value at Risk.

Operational Risk. Prior to December 31, 2006, the operational risk component equals 12 percent of average annual "gross income" for calendar years 2004, 2005, and 2006, with actual income results substituted for forecasted income each time the operational risk component is recalculated. On and after December 31, 2006, the operational risk component will be based entirely on average historical gross income over the three preceding calendar years.

- Credit Risk. To determine the credit risk component, FHLBank Atlanta groups all of its assets (other than advances, overnight fed funds sold, and certain other assets) by credit risk rating and determines -- applying credit risk factors published by the Finance Board in its risk-based capital regulations -- the amount of credit enhancement that would be required to raise each group of assets to a AAA credit rating level.

In addition, FHLBank Atlanta may include an additional dollar amount within any of these components to cover a specific identified risk as deemed necessary from time to time. If at any quarter end the target exceeds the actual amount of retained earnings, FHLBank Atlanta will set dividend payments at a level consistent with achieving the target amount of retained earnings within the next four quarters.

We believe this is a prudent approach to ensure the adequacy of an FHLBank's retained earnings, as the policy is tailored to reflect our bank's actual risk profile, as it changes from time to time. As of March 31, 2006, FHLBank Atlanta held retained earnings in excess of $352 million, an amount that we believe is sufficient to protect the par value of FHLBank Atlanta capital stock.

While FHLBank Atlanta commends and shares the Finance Board's commitment to strong retained earnings accounts at this institution and the other FHLBanks, we do not believe that the proposed rulemaking is the best way to achieve that goal. FHLBank Atlanta continues to endorse the recommendation expressed in the May 2, 2006, letter to the Finance Board from the chairs and vice chairs of the 12 FHLBanks. The Finance Board should withdraw the current proposed regulation, and instead issue an Advanced Notice of Proposed Rulemaking (ANPR). The proposed rule has significant implications, and the potential for substantial unintended consequences, for the FHLBanks, their more than 8,000 members, and their communities. Given that potential for negative ramifications, and the admitted lack of any current capital crisis within the System,[1] we believe that getting the new rule right is more important than implementing it quickly.

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[1] In the preamble to the proposed rule, the Finance Board rated the risk of capital insolvency at any FHLBank in the foreseeable future as "*de minimis*."

The more deliberative process reflected in the ANPR would create an additional window for dialogue between the Finance Board and affected parties prior to the issuance of a proposed rule. We believe, for example, that the current approach to calculating the appropriate amount of retained earnings at our bank is a reasonable and practical alternative to the proposed rule's retained earnings requirements, and an ANPR would allow the FHLBanks and those who depend on the System to consider that approach, as well as others. It also would give the Finance Board the opportunity to complete the development of new proposed risk-based capital standards and to present them, together with the proposed excess stock limitations and retained earnings requirements, as a comprehensive reform of the Finance Board's capital regulations. In either case, we believe such a process would be more likely to result in a final rule that addresses the Finance Board's concerns while minimizing any disruptive effects to the FHLBank System and its stakeholders.

In the event that the Finance Board declines to withdraw the proposed rule and issue an ANPR, FHLBank Atlanta recommends the following revisions to the proposed rule:

- Retained Earnings Formula. The retained earnings requirement for non-advance assets (cash, federal funds, mortgage-backed securities, and acquired member assets) should be modified to reflect the difference in market and credit risk of these assets, in accordance with a risk-based approach to financial institution capital standards. There should be no requirement to hold retained earnings against cash or overnight federal funds sold, and the requirement for any AAA-rated asset should be much less than one percent. As currently drafted, the rule applies the same percentage retained earnings requirement (one percent) to all of an FHLBank's non-advance assets, regardless of the amount of risk associated with those assets. This inadvertently rewards FHLBanks having relatively risky asset profiles and penalizes FHLBanks having relatively safe asset profiles.

- Transition Period. The proposed rule should set a specific common deadline of no more than five years for each FHLBank to achieve its retained earnings minimum. During this transition period -- which should be a reasonable length of time that allows each FHLBank the opportunity to meet its requirement with minimal disruption -- each FHLBank should be permitted to continue to set its own dividend policies without restriction, so long as the FHLBank remains on course to accumulate sufficient retained earnings to meet the required minimum by the deadline. As written, the proposed rule's transition provisions give each FHLBank an indefinite period of time to first achieve the retained earnings minimum and apply the same percentage dividend limitation rate (i.e., 50 percent) during the transition period to all FHLBanks, no matter how near or far the FHLBank is from achieving the minimum.

- Dividend Timing. As drafted, the proposed rule creates an inadvertent dividend timing problem that requires technical correction. FHLBank Atlanta's current practice is to pay dividends on the first business day following completion of a calendar quarter, based on actual net income results for the first two months of that calendar quarter and the last month of the preceding calendar quarter. However, the proposed rule likely would delay the payment of dividends until the month following a calendar quarter's end, since it requires the calculation of the retained earnings minimum (and therefore the maximum amount of the quarterly dividend) based only on a calendar quarter basis. The proposed rule should be modified to permit each FHLBank to calculate and pay dividends based on the actual net income results of three-month periods other than calendar quarters.

Thank you for your consideration of our comments.

Sincerely,

Raymond R. Christman