

Donn Schafer
Chief Financial Officer
Settlers Bank
115 Third St
Marietta OH 45750

July 10, 2006

Mr. Ronald Rosenfeld, Chairman
Federal Housing Finance Board
1625 Eye St NW
Washington DC 20006

Attention: Public Comments
FHFB Proposed Rule: Excess Stock Restrictions and Retained Earnings
Requirements for the Federal Home Loan Banks
RIN Number 3069-AB30 Docket Number 2006-03

Dear Mr. Rosenfeld:

I would like to thank the Board for giving the public the opportunity to comment on the above-mentioned proposed rule.

It has been with great interest that I have observed the proposed revisions to the capital regulations made by the Federal Housing Finance Board ("FHFB") for the Federal Home Loan Banks ("FHLB").

I would like you to know that I believe the proposed rule will be harmful to the Federal Home Loan Bank of Cincinnati ("FHLB-C"), our bank as a member of FHLB-C, and other FHLB-C member institutions. We have been members of FHLB-C since our incorporation in 1999 and value them as a partner in our mission. Among other services we utilize, FHLB-C provides us with liquidity needs, long-term funding and an option to secondary markets through their mortgage purchase programs.

The adoption of the proposed rule could result in a downgrade of FHLB-C's credit position due to their lower capital levels, lower liquidity and lower profitability. This will then impact us and other community banks because of the resultant reduction in product offerings availability and the increased cost of doing business with FHLB-C.

By requiring FHLB-C to redeem excess stock as defined by the rule for cash, some member banks will experience an adverse tax impact by having to realize taxable gains. This again places banks at a competitive disadvantage to credit unions. Credit unions will not have to pay taxes on these gains, but banks will.

Furthermore, the proposed rule eliminates tax-deferrals on future dividends by prohibiting the FHLBs from paying stock dividends. Dividends paid by stock are an

important benefit that lowers our overall cost of funds and, ultimately, benefits consumers.

For these reasons, I respectfully request that you withdraw the proposed rule.

Sincerely,

Donn Schafer
Chief Financial Officer
Settlers Bank
Marietta OH
dschafer@settlersbank.com