July 10, 2006

I am the President and CEO of Northpointe Bank, a $318 million community bank that is a member of the Federal Home Loan Bank of Indianapolis. I am writing in opposition to the Federal Housing Finance Board's proposed rule regarding excess stock restrictions and retained earnings requirements for the Federal Home Loan Banks.

A safe and sound FHLB system is vitally important to community banks such as Northpointe Bank that depend on their FHLBs for liquidity, long term funding, a secondary market option, and other important products and services. Therefore, I offer the following comments regarding the proposed rule:

* The Gramm-Leach-Bliley Act of 1999 called for significant changes to the capital structure of the FHLBs with new, more permanent member stock. The FHLBs have spent several years and significant dollars developing these plans, plans that have required FHFB approval for implementation. Each FHLB developed its plan based on its specific situation and the needs of its members. Any changes to the capital structure should be consistent with the 1999 Act. Retained earnings policies should be part of the capital plan and based on the risk profiles and business plans of each individual FHLB, not on a formula applied across the system without regard to the varied risks of an individual FHLB or of asset classes.

* The FHFB has stated that all FHLBs are adequately capitalized. Therefore, each FHLB should be given a reasonable period of time to increase retained earnings if needed, so as not to cause unnecessary disruptions to their business or that of their members.

* While the primary reason Northpointe Bank joined the FHLBI is for access to advances, dividends paid by stock are an important benefit that lowers Northpointe's overall cost of funds, thereby benefiting its customers.

* Some FHLBs project that they would meet the minimum retained earnings requirement by the time a final rule is expected, but it would take months or years for others to meet it. Some FHLB members could thus see significant, prolonged cuts in their dividends. I am concerned that if the proposed rule goes forward as proposed, it will cause financial institutions with multi-district memberships to shop their advance business among FHLBs to obtain the highest dividend payouts. In addition, the largest FHLB members with other funding options may leave the system for less costly funding as steep dividend cuts raise their all-in cost of funds. In either case, community banks such as Northpointe Bank that do not have such choices will be significantly disadvantaged.

* FHLBs should continue to have the option to pay dividends in stock, to enable their members to enjoy the tax advantages of that payment form as determined by their capital plan. Appropriate limits for excess stock can be used to alleviate regulatory concerns that excess stock is used for riskier/higher return assets or activities that are not mission-related.

In summary, FHLB membership plays an important role in helping Northpointe Bank serve its community, thus there is a vital need for a safe, sound and stable FHLB system. I therefore urge the FHFB to withdraw the proposed rule and reissue it as an Advance Notice of Proposed Rulemaking in order to enable the FHFB to enter a discussion of the proposal with the FHLBs, FHLB members, and other interested parties.

Sincerely,

Charles A. Williams
President & CEO
Northpointe Bank
Grand Rapids MI
caw@npbank.com