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Federal Housing Finance Board
1623 Eye Street, NW
Washington, D.C. 20006

Attention: Public Comments

Re: Federal Housing Finance Board Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirement for the Federal Home Loan Banks.
RIN Number 3069-AB30
Docket No. 2006-03
71 FR 13306 (March 15, 2006)

We are writing on behalf of the New Hampshire Bankers Association (NHBA) to request that the Federal Housing Finance Board (FHFB or "the Board") withdraw, redraft and resubmit its Proposed Rule on Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks. The NHBA is a not-for-profit, statewide trade association representing the New Hampshire banking industry.

The proposed rule, we feel, fails to recognize the great size, asset base and risk profile differences between the twelve Federal Home Loan Banks (FHLBs), suggests an arbitrary scheme for guiding capital and risk management at the FHLBs and, in doing so, threatens to damage their public policy and societal value and the health of many community banks who have come to rely upon them.

The proposed rule fails to recognize the great differences between FHLBs.

The twelve FHLBs serve separate markets with varying compositions of member financial institutions serving individual economies with different economic bases and disparate concentrations of industries and institutions.

For instance, the New England market served by the Federal Home Loan Bank of Boston includes a great number of mutual savings banks, which tend to take a longer term look at management issues than many publicly traded institutions. Their history of commitment to traditional mortgage lending and holding of FHLB stock is measured in generations of bank management. Few other FHLBs include a great number of mutual institutions and the stability they represent in their memberships.

At the same time, much of New England relies economically on mature industries like tourism, which is heavily weather-reliant, or timber, which is battling a strong international market, while others are enjoying amazing levels of commercial growth.

Federal and state regulators of the traditional banking industry have recognized for a long time that each institution has a different set of underlying dynamics, asset base and risk profile and, therefore, is best managed for safety and soundness with a risk-weighted capital plan. The same should hold true for the FHLBs.

<u>The proposed capital guideline and dividend restrictions appear to be arbitrary.</u>

The fact that we're discussing a capital "guideline", not a set of guidelines, is early warning of an arbitrarily set threshold. It's been said by others that "one size does not fit all", and we agree.

If we accept the apparent assumption that all FHLBs share a similar risk profile, and that the proposed retained earnings minimum of $50 million plus 1% of all non-advance assets is appropriate for the largest FHLB in the system, then it is unnecessarily excessive for the smallest. (Then again, given the great number of factors discussed above that influence a FHLB's risk profile, maybe the guideline would be correct for the smallest member of the system but too much for the largest!)

We think it would be far more constructive for the Board to withdraw this proposed guideline and resubmit for comment a set of risk-based guidelines.

<u>The proposed rule threatens to damage FHLBs, small banks, and communities.</u>

To the extent FHLBs may be required to limit dividends and retain earnings to reach an arbitrary capital level exceeding one justified by a reasonable assessment of their risk profile, the proposed rule could do significant damage to banks, the communities they serve and, ultimately, the FHLB the proposal should be designed to protect.

Smaller banks are more heavily reliant on the FHLBs for liquidity than large institutions that can more easily access other markets. The value of FHLB dividends is calculated into the overall cost of system advances. Limiting dividends will raise the cost of liquidity, which must be passed through to consumers, squelching the public policy of promoting home ownership. It may also cause community banks to seek other sources of funding, which would certainly weaken the FHLB system and possibly bring greater levels of risk into the banking industry.

For the reasons stated above, we respectfully request that the Federal Housing Finance Board withdraw this proposed rule, redraft it to include a risk-based capital formula and provide a more gradual method for the FHLBs to attain full capitalization, and resubmit the rule for further comment.

Sincerely,

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