



SHOREBANK PACIFIC

David C. E. Williams
Chief Executive Officer

June 28, 2006

Federal Housing Finance Board
1625 Eye St. NW
Washington, DC 20006

Attention: Public Affairs

We participate with the Seattle FHLB to fund a portion of our asset base. We are well aware of the dividend which they pay and the risk that we took on at this particular bank when it entered into purchasing mortgage packages. We were amongst those that spoke out vigorously against the practice. After some consideration, the bank has taken corrective action.

We, therefore, are baffled by the current effort of the Finance Board to require the retention of future earnings of the bank to increase the retained earnings of this and most other Federal Home Loan Banks. The level of intended increase would effectively cause this bank and, I am certain others, to get their funding elsewhere.

Retained earnings are merely a form of protection of the bank against unsound practices. They are no different from, not better nor worse, than other equity. Tying up the ability of the bank to return those assets to their members makes the stock of no value and certainly does not encourage member participation in the bank. All of this to what end? Strengthen the bank. Is that necessary? Not to my reading of their operating process and the nature of their activities. The bank's board has the responsibility to determine the dividend policy consistent with strong safety and soundness measures. Imposition of the proposed policy removes that ability from the board.

The retained earnings will never be distributed to the shareholders, who are the only strength of the FHLB. How can the proposed activity thereby enhance the strength of the bank? It can't.

Therefore, note that ShoreBank Pacific is opposed to the proposed earnings capture.

Best Regards,

David C.E. Williams

cc. Sen. Ron Wyden
Sen. Smith
Sen. Maria Cantwell
Sen. XXXXX
Rep. Brian Baird
Rep. Ron Blumenauer
Rep. David Wu

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