FOUNDATION BANK

Federal Housing Finance Board
1625 Eye Street N.W.
Washington, D.C. 20006

June 28, 2006

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

Foundation Bank is a member of the Federal Home Loan Bank of Cincinnati. We are writing you to express our deep concern and strong opposition to the proposed rule that limits dividends and imposes new restrictions on the capitalization of all Federal Home Loan Banks. The proposed rule, as written, would have a very negative impact on both the Federal Home Loan Bank of Cincinnati and its members.

By (1) limitation of the amount of excess stock that may be held, (2) imposition of a FHLB system wide formula for calculating retained earnings, (3) restriction of the payment of dividends until the new retained earnings minimum is achieved and (4) prohibition of the payment of stock dividends, collectively will have the effect of lowering the FHLB's liquidity position and earnings and will ultimately lead to a potential credit rating downgrade. This, in turn, will trickle down to the members of the FHLB, causing them lower earnings due to reduced dividends and adverse tax consequences resulting from the payment of cash dividends versus stock dividends. Additionally, less liquidity in the FHLB System will result in higher borrowing costs which will be passed on to its membership-also contributing to lower earnings for its members.

The Cincinnati FHLB has a strong commitment to affordable housing programs and initiatives. The successful Affordable Housing Program, which has helped nearly 35,000 households in the Cincinnati district is funded through a 10 percent set aside of net earnings. This pool of funding will be reduced as earnings are reduced. As a result of lower capital and earnings, other programs, i.e. the American Dream Homeownership Challenge for minority and special needs homebuyers, will be also be negatively impacted.

After reviewing the proposed rule, I can find no positive impact that would result from the implementation of such regulation.

The FHLB of Cincinnati is a well-capitalized, profitable, conservatively managed, triple-A rated, low-risk profile institution that will be negatively affected by the "one size fits all" formulas in the proposed rule. Perhaps, in lieu of this broad based regulation affecting all twelve of the FHLBs, a risk-based formula tied to each of the individual FHLBs, based on their respective business plans, capital levels, earnings, asset mix and management should be considered when determining adequate levels of capital required for each of the FHLBs.

Sincerely,

Joseph D. Hughes

Joseph D. Hughes
President