



June 29, 2006

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

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

I would like to formally comment on behalf of our Bank on the proposed revisions to the Capital Regulations promulgated by the Federal Housing Finance Board and published in the Federal Register on March 15, 2006.

Keystone Community Bank (Keystone) is a member of the Federal Home Loan Bank of Indianapolis (FHLBI) and relies on the FHLBI for a variety of funding products. The dividends we receive from the FHLBI are an important part of our earnings.

The proposed rule diminishes the value of membership in the Federal Home Loan Bank and will negatively impact smaller members, such as Keystone. We request that the proposed rule be withdrawn.

The proposed dividend limitation of 50% of earnings will effectively increase the borrowing costs of all members. This is especially important to our Bank, as we have relied on the low-cost funding available to us through the FHLBI in order to compete with larger banks that can directly access the markets. Reducing the available dividend will raise the effective cost of the funding, which will make internet and brokered products more attractive, and lead to a reduction in our use of advances. Under the proposed rule, as we reduce advances, the FHLBI will be required to increase retained earnings, since the rule requires that retained earnings be calculated on all "non-advance" assets, including cash and U.S. Treasuries.

We urge the Federal Housing Finance Board to withdraw the proposed rule in its present form, as it will diminish the value of our Bank's membership, as well as many other community banks.

Sincerely,

A handwritten signature in blue ink that reads "Tom O. Schlueter".

Thomas O. Schlueter
President & Executive Officer

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