



# First State Bank

July 3, 2006

Mr. Ronald A. Rosenfeld, Chairman  
Federal Housing Finance Board  
1625 Eye Street, N.W.  
Washington, D.C. 20006

Dear Mr. Rosenfeld:

I am writing to you as a member of the Federal Home Loan Bank of Seattle, regarding the proposed Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks.

My main concerns center on the proposals within the rule regarding retained earnings requirements, and dividend payment restrictions. On a general level, it would seem that since the Federal Home Loan Banks are cooperatives who are owned by their financial institution members, are not publicly traded, and are subject to fairly high regulatory scrutiny, the necessity of the proposed rule is questionable.

With specific reference to the retained earnings requirement, establishing an arbitrary dollar amount plus a percentage of assets for retained earnings does not follow the current focus of other financial institution regulators, which is risk-based. The capital of any Federal Home Loan Bank, whether it is retained earnings, stock, or otherwise, should be evaluated given the risk profile of that particular bank. It is probable that certain non-advance assets are deemed to be very low risk. As regulators of the twelve Federal Home Loan Banks, you are uniquely qualified and positioned to assess whether or not a particular Federal Home Loan Bank's capital accounts (of all types) are adequate, in light of that particular bank's risk profile. I know in regard to the Federal Home Loan Bank of Seattle, the Federal Housing Finance Board instituted restrictions and requirements on that bank when the Board felt the risk profile of the bank was high.

With regard to the proposed dividend payment restrictions, the same philosophical rationale should apply. The payment of dividends by any Federal Home Loan Bank should be left first and foremost to its Board of Directors, as elected by its member-owners. Only in the event of a clearly identified problem or risk within a certain Federal Home Loan Bank, should the payment of dividends be restricted. The decision to pay dividends by a FHLB board should include not only the amount and timing of the dividends, but also the form of payment of those dividends, whether it is cash, stock, or both.

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Sincerely,

FIRST STATE BANK,



Bruce A. Hellbaum,  
President and COO

BAH:mk

cc: Senator Mike Enzi  
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Senator Craig Thomas  
U.S. Senate  
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