P.O. Box 1029
311 Woodworth Avenue
Alma, Michigan 48801

Firstbank
CORPORATION

Ph. (989) 463-3131
Fax (989) 463-6668

June 27, 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

The Board of Directors of Firstbank Corporation, which is a Michigan based multi-bank holding company, has asked me to formally comment on behalf of our company 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.

All six of the commercial banks within Firstbank Corporation are members of the Federal Home Loan Bank of Indianapolis (FHLBI), relying on the FHLBI for a variety of advance and mortgage related products. The dividends we receive from the FHLBI are also an important part of the earnings streams of our banks, and I believe we are the sixth largest member of the FHLBI when measured by the amount of dividends received annually from the FHLBI.

I believe that the proposed rule diminishes the value of membership in the Federal Home Loan Bank, will cause serious damage to smaller members such as our six member banks, and request that the proposed rule be withdrawn.

The capital within the FHLBI meets ali regulatory requirements. The FHLBI converted its capital structure to comply with the Gramm-Leach-Bliley Act (GLBA), and also adopted a new retained earnings policy which relies upon a risk based analysis to determine the appropriate level of retained earnings to be held by the bank. The proposed rule ignores the permanent FHLBank capital created by GLBA to absorb losses, and arbitrarily assigns a "one size fits all" retained earnings requirement for all 12 of the FHLBanks regardless of the risk profile of each bank.

By establishing an unnecessarily higher retained earnings charge, current holders will be denied access to the earnings being generated by their stock investment, and the value of those earnings will be transferred to future owners of FHLBank shares, which will diminish the value of membership in the FHLBank system.

The proposed dividend limitation of 50% of earnings will effectively increase the borrowing costs of all members. This is especially important to our company, as we have relied on the low-cost funding available to us through the FHLBI in order to compete with the large regional and national banking organizations that can access the markets directly. Reducing the available dividend will raise the effective cost of the funding, which will make internet and brokered products more attractive, and which will 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 – even cash and U. S. Treasuries.

Shrinkage of the advance business will undermine the FHLBank system by creating a cycle of reducing asset size which reduces income which reduces dividends, another effect of which is to reduce the funds available for housing – especially under the successful Affordable Housing Program. The FHLBI has estimated that AHP grants to families will be reduced by over $1 million per year if the proposed rule is implemented.

The proposed rule creates a number of unintended consequences. Holding more retained earnings than needed from a risk-based perspective deleverages the FHLBank, reduces shareholder returns, and ironically may cause member withdrawal. Rather than use the proposal's "one size fits all" formula, I would encourage the Finance Board to adopt a risk-based approach which would be more consistent with the other federal banking regulators and industry best practices.

The proposed rule also usurps the independence and responsibility of the Boards of the FHLBanks, by restricting the board's ability to declare dividends. GLBA recognized the independence of the Boards of the individual FHLBanks and continues the long-existing support of the rights granted to those boards consistent with that of other corporate boards of directors, including the amount, timing and form of dividends. GLBA limits dividends only by current and retained earnings, and nothing in the statute would support eliminating the ability of the Boards of Directors to declare stock dividends.

We urge the Finance Board to withdraw the proposed rule given that the FHLBank system has sufficient and adequate regulation, that GLBA clearly addresses the issues of corporate governance and adequate capital at the individual FHLBank level, that the rule in its present form will diminish the value of membership, and that it will negatively impact the housing mission of the System.

Respectfully Submitted,

Thomas R. Sullivan

Thomas R. Sullivan
President & Chief Executive Officer