U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

June 30, 2006

The Honorable Ronald A. Rosenfeld
Chairman
Federal Housing Finance Board
1625 Eye Street N.W.
Washington, D.C. 20006-4001

Dear Chairman Rosenfeld:

The Federal Housing Finance Board (FHFB) has issued a proposed rule that would prescribe a minimum amount of retained earnings for each Federal Home Loan Bank (Bank) and would limit the amount of excess stock that a Bank can have outstanding. The proposal also would prohibit a Bank from selling excess stock to its members or paying stock dividends and restrict a Bank's ability to pay dividends when its retained earnings are below the prescribed minimum.

In our view, the potential impact of this proposal is critically important to the Banks, their members, and the housing finance system. The fact that the proposal has been criticized by the leadership of all twelve Banks and key industry trade groups indicates to us a need for pause. We are concerned that the proposed changes may go too far and actually harm the Bank system more than protect it.

Specifically, some of the questions we have are:

- Do the proposal's new capital requirements conform with the capital provisions of the Gramm Leach Bliley Act (GLBA), some of which are still being implemented? How does the proposal relate to the FHFB's development of risk-based capital standards?

- What would be the impact on the financial management and business operations of the Banks?

- Will the cost of Bank advances rise, possibly causing larger members to choose other funding sources and lessen their Bank borrowings and the flow of liquidity?

  Will Bank mortgage purchase programs and investments in non-advance assets be reduced?

Will the Bank System's payments to the Affordable Housing Program and REFCorp bond defeasance be lower?

- What will be the ramifications for smaller, community financial institutions compared to larger members?

- Will competition and consolidation within the Bank System result?

We understand that for the FHFB there is no question of capital solvency of any Bank. Given there is no apparent urgency, we encourage the FHFB to take an open-minded, cautious approach on such a far reaching proposal. The FHFB should thoroughly address the concerns raised in working toward an appropriate outcome.

The comment period on this proposal ends July 13, 2006. Subsequently, the FHFB should be prepared to testify on the proposal and the comments received at a Financial Services Committee hearing to be held soon after the August recess.

We appreciate your consideration and look forward to your response.

Yours truly,

Michael G. Oxley
Chairman

Barney Frank
Ranking Member