



Commonwealth Credit Union

June 30, 2006

Federal Housing Finance Board
1625 Eye Street NW
Washington D.C. 20006

Dear Sirs:

Commonwealth Credit Union is a member of the Federal Home Loan Bank of Cincinnati. It has come to our attention that the Federal Housing Finance Board (FHFB) has proposed a rule that would require a minimum amount of retained earnings for each FHLB and limit the amount of excess stock each could have outstanding. Furthermore, the proposal would prohibit a FHLB from selling excess stock to pay dividends and restricts a FHLB's ability to pay dividends when its retained earnings are below the required minimum.

We believe this proposal has inherent weaknesses on many fronts, and we urge the FHFB to withdraw it. As written, the proposed rule would have the unfortunate consequence of reducing the FHLB's capital position and profitability, leading perhaps to its credit downgrading. The ruling has the effect of reducing the value of membership with the FHLB. In the past, we have received significant dividend payments from the FHLB, and any action that unnecessarily impedes or restricts the FHLB's flexibility in this area is detrimental to its members. Moreover, the FHLB provides low cost funding for credit unions. If the FHLB is required to hold less liquidity, credit unions may be forced to hold more liquidity of their own since there are limited sources for external funding. Less liquidity in the system translates into higher rates, and the cost of borrowing becomes unattractive.

On balance, it is difficult to see how the rule proposal is positive for the economy, the FHLB system, credit unions in general or Commonwealth Credit Union in particular. With respect to the FHLB system, a one-size fits all retained earnings formula ignores individual FHLB's risk profiles, business plans, asset mixes and capital plans. Unintended consequences most likely will result from the rule, which could trigger and unleash a host of adverse reactions. We respect the FHFB's attempt to strengthen the system, however, we believe this rule would frustrate the regulator's best intentions, leaving the FHLB and its members weakened.

Respectfully,

A handwritten signature in dark ink that reads "Karen C. Harbin".

Karen Harbin, CPA
Executive Vice President

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