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Jan A. Miller
President/CEO

Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006

July 6, 2006

Re: Proposed Rule on Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks

Attention: Public Comments

As a community banker and member of the Federal Home Loan Bank system, I appreciate the opportunity to comment on the Federal Housing Finance Board's (Finance Board) proposed rule on Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks. As a shareholder, I support the Finance Board's efforts to ensure the safety and soundness of the Federal Home Loan Bank (FHLBank) system. However, I am concerned that the proposed rule will have a negative impact on my institution and the entire system.

As you know, each FHLBank is different, varying greatly in asset size, business plans, markets, and risk profile. Unfortunately, the proposed rule is a "one-size-fits-all" approach that does not reflect the complexity and diversity of the Bank System. The Finance Board should focus on creating robust retained earnings policies for each Bank that take into consideration each institution's risk profile.

Prior to issuing the proposed rule for comment, the Finance Board did, in fact, pursue this approach. An Advisory Bulletin issued in August, 2003 directed each FHLBank to perform annual risk assessments to determine the adequacy of its retained earnings. The FHLBank of Boston, working closely with the Finance Board, conducted a robust analysis of its risk profile. The Bank's Board of Directors then adopted a strong retained earnings policy. I believe this is far preferable to the "one-size-fits-all" approach contained in the proposed rule.

The proposed rule also restricts the FHLBanks from paying more than 50 percent of net earnings until the Bank reaches its retained earnings minimum. This will needlessly increase the cost of borrowing, causing some members to determine it is not economical to borrow from the FHLBanks. If these borrowers leave the system, the loss of advances and drop in net income would only further delay compliance with the retained earnings minimum requirement.

If the Finance Board decides to go forward with this type of rule, I believe that it should be changed to allow the FHLBanks to increase the percentage of net income they may pay on dividends and allow a longer period to achieve the retained earning minimum. Authorizing the FHLBanks to pay a higher percentage of its net earnings in dividends – perhaps 80 percent – and allowing the FHLBanks an extended period to achieve retained earnings goals would satisfy safety and soundness objectives without threatening the FHLBanks, their members, and ultimately consumers.

I am concerned that the proposal would have a substantial adverse affect on smaller financial institutions that are FHLBank members. As you know, smaller members rely on the FHLBanks as an important funding source. Unlike large banks, which are able to obtain funding from the capital markets and other investors, smaller banks like mine are not able to cost-effectively tap these liquidity sources.

The FHLBanks are an important source of capital for community banks here in Massachusetts and throughout the nation. The Finance Board's proposed rule would have a negative impact on these institutions, and I urge you to rework the proposal and reissue it for additional comment. At my bank, Wainwright Bank & Trust Company, community development lending is a core business strategy. As such, we are an active sponsor of AHP applicants and an active user of CDA advances to support the development of affordable housing. I am concerned that this proposal will cause a reduction in AHP grants and restrict funds available for CDA advances. This would cut to the core of the mission of the FHLB System.

Thank you again for the opportunity to comment and for considering my views.

Sincerely,

Jan A. Miller

President and Chief Executive Officer
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