The Citizens Bank of Logan

188 West Main Street, Logan, Ohio 43138

July 5, 2006

RE: **MAJOR PROBLEMS - - FHFB PROPOSED CAPITAL RULE**

Comments@fhfb.gov

Dear Sir or Madam:

I am writing this letter to the Federal Housing Finance Board about the proposed new capital rule for the Federal Home Loan Banks. My bank and I believe that the goals of the new rule are meritorious, but the methods used in the new rule are so seriously flawed that the proposed rule should be withdrawn.

First it is the position of our institution that the housing market in the United States is the envy of the world. By some measures more people own their own homes in this country at this time than at any other time in the history of civilization.

Simultaneously, the housing finance market rests partly on the efforts of two entities that, though nationally chartered, are not governmental agencies. These two institutions have a monopolistic financial power that is hard to imagine. As is regularly true of an unchecked monopoly, misuse of power is a problem. The press recently has run many stories on the lurid accounting scandals at these two entities. Less well known are the way these entities abuse smaller participants in the market. Schemes such as requesting repurchase for low rate loans when interest rates rise or specious audits are occurring. For example, recently the examiners of one of these large entities quizzed a smaller participant about not having a dedicated collection department for secondary market loans. When it was pointed out to the examiners that in the past 17 years only two secondary market loans had been over 60 days delinquent, the examiners remained unfazed.

The Federal Home Loan Banks have been a small, but effective, antidote to this kind of abusive behavior. An integral part of the way that the FHLB Banks help finance home ownership are the capital plans they have devised.

Though the mission of the proposed rule is ostensibly to provide more secure capital, it in effect provides less capital to the housing markets. The rule does this because it forces the FHLB banks to redeem “excess stock”. The rule ignores the differing risk profiles at the banks. The rule ignores the substantial benefits to smaller institutions in underserved areas. The rule will severely reduce the substantial amount the FHLB banks contribute to affordable housing initiatives.

No other similar institutions are to “make a market” in their own securities. However, the rule forces this on the FHLB banks and puts them at a serious disadvantage to their competitors.

The needs of the various markets served by the banks clearly differ, so they do have different risks. For example, over the past few years the appreciation in some real estate markets has been over 100%, while others have barely budged. The rule blindly assumes all capital needs are the same

Affordable housing initiatives by the FHLB Banks have clearly been an overall success (they have strongly contributed to our high rates of home ownership), but sometimes it is forgotten that these plans tend to require extra expense, care and nurturing. This is part of the current capital plans of the banks. Under the rule it will likely be curtailed.

Should you wish me to elaborate more on these points, then I would be happy to discuss them with anyone that wishes. They can reach me by phone at 740-385-8561 extension 250.

Sincerely,

Bryan Starner
President and CEO
The Citizens Bank of Logan

Cc: Federal Home Loan Bank of Cincinnati
Senator Mike DeWine
Senator George Voinovich
Congressman Ted Strickland
Congressman Robert Ney