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July 3, 2006

Federal Housing Finance Board  
1625 Eye Street, N. W.  
Washington, DC 2006

Dear Mr. Meeks:

The proposed rule as of March 8, 2006 by the Finance Board to strengthen the capital structure of the Federal Home Loan Banks should be revised from its present approach and not be approved as presented.

The proposal ignores the basic attributes of the current permanent capital structure, and appears to be an arbitrary, one-size fits all approach, which is not risk-weighted. Community First Bank in Southern Indiana has utilized low cost funds from the Federal Home Loan Bank of Indianapolis for housing for low income housing, community development and liquidity and this proposal threatens that successful relationship.

Rather than use the proposal's one-size fits all formula, the Finance Board should adopt a risk-based approach tying the level of retained earnings to the risk on the balance sheet. This is more in line with the other federal banking regulators and the Basel Capital studies. The Finance Board needs to consider a future risk-based capital rulemaking.

The Finance Board should consider making their appointment to the Federal Home Loan Banks' public interest directors. The failure to make these appointments along with this proposal undermines the Federal Home Loan Banks' valuable role as a government-sponsored enterprise to provide reliable low-cost housing finance and liquidity to our industry and nations homebuyers. With the failure to make public interest appointments, a major voice in this policy debate has been intentionally silenced.

In our banking region we have been able to assist our low income households the opportunity of affordable housing, both ownership & rental, through our Federal Home Loan Bank, while enjoying lower cost of funds and acceptable returns on our investment of Federal Home Loan Bank ownership. This proposal undermines and penalizes future success of our Federal Home Loan Bank. Your actions should be focused toward the correction of the few who have violated sound risk-based management and your appointments to the boards.

Sincerely yours,

A handwritten signature in blue ink that reads 'James W. Bye'.

James W. Bye,  
Executive Vice-President

Cc: Senator Evan Bayh  
Senator Richard Lugar  
Representative Mike Sodrel

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