

July 3, 2006

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

RE: Federal Housing Finance Board: Excess Stock Restrictions and  
Retained Earnings Requirement for the Federal Home Loan Banks.  
RIN Number 3069-AB30  
Docket No. 2006-03  
71 FR 13306 (March 15, 2006)

The Pennsylvania Association of Community Bankers (PACB), representing 200 community banks across this Commonwealth, is committed to our ongoing partnership with the FHLBank Pittsburgh in ensuring our members have continued and attractive access to liquidity. The bank and overall system has been of tremendous benefit and an exceptional partner to community banks in ensuring we may continue to serve our communities and be a source of economic strength and economic development.

We recognize that the Finance Board welcomes comments and is willing to consider amending the proposed rule to reflect the comments it receives. We also recognize the Finance Board believed strongly that it had to issue the proposed rule to begin a dialogue about the issues in the proposed rule and we commend you for your willingness to have that dialogue and work in partnership with the various interested stakeholders to reach an acceptable solution that will continue to allow the banks to serve community banks and the greater public as they have so ably done for many years.

We would respectfully suggest that there are a number of significant concerns that warrant the Finance Board's attention in restructuring the rule to address these very serious issues.

These important concerns include:

1. The impact on bank members will vary according to size. Larger institutions that have a choice of funding vehicles may use other funding sources. Many community banks that rely on the FHLBanks for advances have fewer funding options. Their income will go down based on reduced dividends as their all-in-cost of borrowing from the FHLBanks will increase. PACB is, as a result, very concerned this will impact local customers and communities.

2. We urgently recommend a phase-in period to minimize any unnecessary shock to the FHLBank system restructuring the rule to permit the FHLBanks to pay out 80% of earnings or the Fed Funds rate, whichever is greater, until the standard is met or, as suggested below, a new capital plan is implemented that meets the intended goal of the proposal.
3. The timing in the proposed rule will cause our members who are stockholders in the FHLBank Pittsburgh to miss one quarter's dividend.
4. FHLBank capital should reflect risk and be reviewed in a comprehensive manner. The proposed rule, as currently structured, does not reflect the risk of FHLBank's assets or activities. It treats mortgages and short-term Treasuries in exactly the same manner. Permanent capital-at-risk in each FHLBank may come from paid-in capital, or from surplus or retained earnings, or from some other form of security instrument. The Finance Board should provide a longer timeframe to explore this concept that does not precipitate any unintended consequences. The final rule should allow FHLBanks to review capital plans to create a more explicit form of permanent, at-risk capital that would effectively address the risk in today's FHLBanks.

Again, thank you for your willingness to solicit comments on these important issues. We urge the Finance Board to consider our comments as well as the many others received from stakeholders of the system.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank A. Pinto". The signature is written in a cursive, flowing style.

Frank A. Pinto  
President/CEO