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David M. Moffett
Vice Chairman and CFO

July 1, 2006

Federal Housing Finance Board
1625 Eye Street NW
Washington DC 20006
Attn: Public Comments

Re: Federal Housing Finance Board Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks
RIN Number 3069-AB30
Docket Number 2006-03

Dear Sir or Madam:

U.S. Bancorp welcomes the opportunity to respond to the Federal Housing Finance Board's ("the Board") proposal for retained earnings for the Federal Home Loan Banks ("FHLB"). U.S. Bancorp ("U.S. Bank") is a large diversified financial services organization headquartered in Minneapolis, Minnesota with banking functions in 24 states. U.S. Bancorp's principal businesses include retail banking, corporate lending, broker/dealer operations, payment services, consumer finance, trust and investment management.

U.S. Bank urges the Board to withdraw the proposed amendment to FHLB capital. It is our belief that the proposed changes will significantly reduce the capabilities of the FHLB as a source of funding for the banking industry. We believe that the current measures used by the FHLB system to manage capital and risk are more appropriate than the measures proposed in the new rule. We recommend that the Board consider a new capital proposal that is risk-based. A risk-based approach is better suited for determining capital adequacy.

The Board has proposed that the FHLB dividends be paid as cash dividends. We believe that this is unnecessarily restrictive. The benefits of FHLB membership are twofold, first it provides a source of liquidity at attractive prices and second the stock dividend provides a tax-efficient return on the equity investment. Limiting the dividend to cash payments will significantly reduce the return on the investment in FHLB shares. The elimination of stock dividends is not necessary to curtail the excess stock at the FHLBs. The FHLBs have established mechanisms to manage excess stock from their members. We believe that these measures are sufficient for this purpose.

The proposed rule seeks to increase the level of retained earnings at the FHLBs. The purpose is to provide a cushion to protect the par value of the member's stock. We believe that this additional measure is not necessary. We believe that it is appropriate to have some level of retained earnings at each FHLB. But, we view our stock in the FHLB as an equity investment that has potential for loss as does any equity investment. Currently each FHLB develops a capital plan that considers the amount of capital necessary to cover the risks facing the FHLB. These capital plans provide a prudent mechanism for considering the capital structure of each FHLB.

The combined effect of limiting the dividends to cash dividends and the requirement to defer dividends to build retained earnings will significantly impact the cost of borrowing from the FHLB. We view the borrowing costs from the FHLB as an all-in-cost that incorporates the dividend and the borrowing rate. The changes that are proposed will significantly raise the cost of borrowing from the FHLB and will limit, and potentially eliminate, the appetite for U.S. Bank to borrow from the FHLB.

The proposed rule seeks to limit the amount of excess stock in the FHLBs. This excess stock is used to capitalize other long-term activities. The reason provided for this limitation is to prevent the members from withdrawing excess stock in the future We don't believe that forcing the redemption of these shares now to prevent future redemptions is the right course of action. The Board of each FHLB approves the uses of excess stock. Currently, each FHLB can return excess shares to members or use these shares to fund activities that enhance the earnings of the FHLB.

While it is possible in the future that members of the FHLB may wish to withdraw their excess shares due to future expectations of reduced dividends, the FHLBs have sufficient safeguards that permit an orderly redemption of excess shares. The FHLBs can delay the redemption of class B shares for up to five years. We believe that this is more than sufficient time for a FHLB to adjust their capital position to reflect requests for withdrawal of shares.

For U.S. Bank, one of the benefits of membership to the FHLB system is access to liquidity on a contingency basis. The proposed rule will likely reduce the short-term ability of the FHLB to provide contingency liquidity to its members. We believe that this unintended consequence is not desirable. We believe that the ability of the FHLB system to provide liquidity to its members on a same day to short-term basis is an important consideration when a bank joins the FHLB system. The forced redemption of excess stock at the FHLBs will constrain the ability of the system to fill this need for contingency liquidity.

Sincerely,

David M. Moffett
Vice Chairman and Chief Financial Officer
U.S. Bancorp