

Chicago Federal Home Loan Bank

111 East Wacker Drive Chicago, Illinois 60601

June 30, 2006

VIA ELECTRONIC MAIL

Federal Housing Finance Board
1625 Eye Street, N.W.
Washington, D.C. 20006
Attention: Public Comments

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

Dear Sir or Madam:

The Federal Home Loan Bank of Chicago ("Bank") is pleased to comment on the Proposed Rule on "Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks" published on March 15, 2006 in the Federal Register by the Federal Housing Finance Board ("FHFB").

The Proposed Rule restricts the amount of excess stock held by a Federal Home Loan Bank ("FHLB") by proposing several new provisions. First, a FHLB would be prohibited from selling stock to its members that would be excess stock at the time of the sale. Second, the Proposed Rule limits the aggregate amount of excess stock that could be outstanding at a FHLB to 1% of the FHLB's total assets. Finally, the Proposed Rule prohibits a FHLB from declaring or paying a stock dividend. The FHFB specifically requested comments on whether the proposed prohibition on the issuance of stock dividends was necessary given the overall limit on outstanding excess stock that is being proposed.

The Bank believes that the Proposed Rule should be modified to eliminate the prohibitions of the sale of excess stock and the declaration of stock dividends. Given the FHFB's proposed cap of 1% of total assets for outstanding excess stock at a FHLB, the FHFB will achieve its objective in limiting the amount of excess stock and, thus, these additional prohibitions are unnecessary.

By prohibiting the sale of any excess stock, the FHFB eliminates the flexibility for members to plan ahead for future borrowings. A member may wish to ensure that its stock requirements are satisfied prior to taking out an advance. Without the ability to purchase stock, which would be excess at the time of purchase but required when the advance is made, the member would be required to wait until the day it wants to borrow to ensure that its stock requirements were met before it would be able to obtain the advance. This could lead to delays in the member obtaining the advance.

The prohibition on the declaration of stock dividends would lower the tax-adjusted dividend returns to the Bank's members. Historically, the Bank has provided its members with dividend rates which were competitive with comparable short term investments. The Bank and many of the other FHLB's have utilized stock dividends to enhance member returns. Bank stock resulting from a stock dividend is held on a tax-deferred basis by members. A member does not pay taxes on the income that a stock dividend represents until that stock is redeemed for cash. This tax-deferred treatment does not apply to cash dividends.

Since the sale of excess stock and the issuance of stock dividends would be subject to the FHFB's 1% limit on excess stock, each FHLB should be able to manage the sale of excess stock and its dividends, as long as such sale or dividend payment would not cause the FHLB to exceed the 1% excess stock limitation. Therefore, the Bank requests that the prohibitions on the sale of excess stock and the declaration of stock dividends be eliminated from the Proposed Rule.

Thank you for the opportunity to comment on this proposal. The Bank would be pleased to answer any questions your staff may have regarding this comment letter or provide such additional information or comments that would be helpful.

Sincerely yours,



Peter E. Gutzmer
Executive Vice President
General Counsel &
Corporate Secretary

PEG:sck