



June 30, 2006

Re: Excess Stock and Retained Earnings Federal Housing Finance Board Regulatory Proposal for the FHLBanks

Dear Federal Housing Finance Board:

After carefully analyzing the proposal put forth by the Federal Housing Finance Board, it is the belief of Team One Credit Union this proposal would be detrimental to the FHLBI and the chartered financial institutions to which the FHLBI provides funds. Furthermore, the proposal would hurt the initiative of *Building Partnerships, Serving Communities* by limiting the FHLBI's ability to provide low-cost funding to its member financial institutions for housing, community development, and liquidity.

The proposal, as presented, would impose a dividend limitation of 50% of earnings in the event that an FHLBank has not met the proposed retained earnings requirement. This reduction in the dividend would have a direct negative impact on the FHLB members' earnings and would increase their overall borrowing costs. On the other hand, some members may opt to withdraw entirely from the FHLBank due to this proposal, therefore creating more risk for the FHLBank and the remaining members.

The restriction on the payment of stock dividends, created by this proposal, would eliminate the tax-deferred benefit, which accrues to the membership. This is at odds to statute that expressly authorizes the payment of stock dividends. The elimination of stock dividends also ignores the fact cash dividends automatically reduce the capitalization of an FHLBank, whereas stock dividends maintain capital levels. Capitalization is an essential consideration by the independent ratings agencies when evaluating an organization's on-going credit rating.

Finally, the proposal creates unintended consequences. The FHLBank would be deleveraged from a risk perspective due to holding more retained earnings than needed, which, in turn, would reduce shareholder returns. As mentioned before, this may cause member withdrawal and, consequently, create more risk for the FHLB and its remaining members. The Finance Board should adopt a risk-based approach connecting the level of retained earnings to the risk on the balance sheet, instead of the one-size fits all formula created by the proposal. The risk based approach is more comparable with the other federal banking regulators and the Basel capital studies. Consequently, it is the belief of Team One Credit Union it would be best to withdraw the current proposal and consider a future risk-based capital rulemaking.

Sincerely,

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Cc: Senator Carl Levin, Senator Debbie Stabenow