

# VIRGINIA BANKERS ASSOCIATION

June 27, 2006

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

Attention: 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:

I am writing on behalf of the Virginia Bankers Association (the “VBA”) to comment on the above-referenced proposal. The VBA represents the interests of nearly all of the commercial banks and savings institutions doing business in the Commonwealth of Virginia, including a large number of banks that are members of the Federal Home Loan Bank of Atlanta.

We are concerned with the impact the proposal’s retained earnings requirement would have on the availability of funding from Federal Home Loan Banks (FHLBs). If an FHLB is forced to have a retained earnings minimum (“REM”) of \$50 million plus 1% of all non-advance assets, less capital will be available for providing advances to our banks for their lending operations. Many of our banks rely heavily on the FHLB as a low-cost funding source. We are concerned that this funding would diminish under the proposal to the detriment of member banks and the communities they serve.

We also have concerns with the impact the proposal will have on the payment of FHLB dividends to member banks. Such dividends are not insignificant to the bottom line of many of our banks, and thus a reduction in such dividends will have a negative impact on our banks. Importantly, dividends effectively reduce the cost of FHLB advances. Increasing the cost of this source of funding for our banks could result in the loss of business due to their inability to offer the same competitive pricing.

All of this is to say that the proposal’s retained earnings requirement will hurt some banks’ ability to compete in the marketplace. Small banks particularly lack the access to the capital markets that larger institutions enjoy, and have relied on the FHLB as the low-cost source of funding for their lending operations. To the extent that funding is reduced, or the cost of such funding is increased, these banks will be disadvantaged.

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Accordingly, we would urge the Federal Housing Finance Board to withdraw or modify its proposal to ensure that the negative impact we fear does not come to fruition. Thank you for considering our views.

Sincerely,

A handwritten signature in cursive script that reads "Walter Ayers".

Walter C. Ayers  
President and Chief Executive Officer

WCA/sk