As the CFO for Bank of Ann Arbor and a member of the FHLB of Indianapolis I have serious concerns with the excess stock and retained earnings regulatory proposal. I am specifically concerned with the proposed dividend limitation of 50% of earnings for all FHLBanks that have not met the proposed retained earnings requirement. This will have an immediate impact on the earnings of my Bank and will significantly increase the overall borrowing costs. I feel the Finance Board should consider increasing the percentage of earnings that can be paid out in dividends. The Board should look at the risk characteristics of each individual FHLBank the same way all Banks are held to risk based capital guidelines. The Finance Board should tie the capital requirements to the risk characteristics of the individual FHLBanks balance sheet.

Eliminating the stock dividend hurts my Bank by eliminating the tax deferred benefit and also reduces the capital in the FHLBank, which this proposal is trying to increase. Requiring the FHLBanks to repurchase excess stock also will reduce the capital levels of the FHLBanks and reduce overall membership as well as reducing the profitability of each FHLBank by de-leveraging the balance sheet. This seems to be exactly what the Board is trying to accomplish.

I am personally familiar with the FHLB of Indianapolis and the Bank's capital has increased over $100 million (246.5%) in just two years. It seems to me that the present system is working and the FHLB of Indianapolis is building its capital nicely. It really does not appear that there is a problem with the system currently in place. Any shareholder or Bank would be very happy with an increase of over 246% in capital growth in a two year period.

I feel this proposal places an unfair burden on member Banks and I would like to see the proposal withdrawn or at least reworked.

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