WASHINGTON FINANCIAL LEAGUE

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June 27, 2006 Via Electronic Mail: comments@fhfb.gov

Mr. Ronald Rosenfeld, Chairman
Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006-4001

Attention: Public Comments

RE: Excess Stock Restrictions and Retained Earnings Requirements
RIN Number 3069 AB-30; Docket Number 2006-30

Dear Chairman Rosenfeld:

The Washington Financial League (WFL), a financial trade organization representing community banks of all charter types and sizes with offices in the State of Washington, thanks you for this opportunity to comment on proposed changes to regulations governing the excess stock and retained earnings of the Federal Home Loan Banks (FHLBs).

WFL is very concerned with the potential negative impacts this proposed rule could have on the financial institutions we represent and respectfully requests that the Federal Housing Finance Board (FHFB) withdraw the proposed regulation and reissue an Advance Notice of Proposed Rulemaking (ANPR). This action would allow for a more thorough discussion and understanding of the potential impacts of the proposed rule.

The WFL is concerned primarily with how the proposed rule ignores the value of FHLB stock in providing a cushion to protect the safety and soundness of the FHLBs. In 1999 the Gramm-Leach-Bliley Act created a framework for each FHLB to establish a new capital plan that would be approved by the FHFB. Under the law and capital plans, capital is defined to include FHLB stock and retained earnings. Now through this proposed rule, it seems the FHFB is ignoring the law and these capital plans by requiring each FHLB to have sufficient retained earnings to protect the par value of the FHLB's stock. This new direction is a fundamental change to the capital structure of the FHLBs that should not be undertaken in a proposed rule.

Second, the WFL is concerned about the impacts this proposed rule could have on the ability of the FHLBs to maintain their position as a low-cost source of funds for community banks and thrifts. A likely outcome of the proposed rule will be reduced FHLB dividends; and because dividends are factored into the overall cost of FHLB advances, the cost of such advances to our members will increase. Further, we believe financial institutions that are able to borrow directly from other sources will choose these options more frequently. Certainly large financial institutions already have alternative sources of funds. If FHLB advance pricing is not competitive with these alternative sources, the FHLBs will face a decrease in borrowings, which correspondingly will affect profitability and the FHLBs' ability to contribute to affordable housing and pay off their REFCORP obligation.

Third, the FHLBs are cooperatives. Member institutions, like the ones we represent, have committed billions of dollars to capitalize the FHLBs. Also, our members have historically been some of the most active borrowers of the FHLB system. Any reforms that impact the capital, dividends, and excess stock are threshold issues that deserve a thorough discussion and analysis from the regulator and the member shareholders.

Again, we ask the FHFB to withdraw the proposed rule and discuss other options through a comprehensive ANPR that would take into consideration the impacts the proposed rule could have on the many community-based thrifts and banks that rely heavily on the low-cost funding source the FHLBs have provided.

Thank you for your consideration of these views.

Sincerely,

Marc Gaspard

Marc Gaspard
President

cc: Members of the State of Washington Congressional Delegation

Senator Patty Murray
Senator Maria Cantwell
Representative Jay Inslee, District 1
Representative Rick Larsen, District 2
Representative Brian Baird, District 3
Representative Doc Hastings, District 4
Representative Cathy McMorris, District 5
Representative Norman D. Dicks, District 6
Representative Jim McDermott, District 7
Representative Dave Reichert, District 8
Representative Adam Smith, District 9