

Comments – FHFB Capital Proposal

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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

To Whom It May Concern:

I am writing to you to express my opposition to the proposed plan referenced above. I am a past Chairman of the Des Moines Board and served on that board for 8 years. I have some understanding of the workings of the FHLB System.

I have several reasons for opposing this plan and I will attempt to outline those reasons as follows:

1. I think it is unreasonable to expect each Bank to have the exact same capital formula. As we all know there are different risks at each Bank. The geographic differences alone gives each Bank a separate risk profile and diversity.
2. In your Proposed Rule Amendments (Amendment) you state on page 13311 that the FHFB does not “sense an imminent problem or Bank failure”. I don’t know why we need a new proposal. Within the last 4 years each FHLB has spent literally millions of dollars on new risk based capital plans that were approved individually by the FHFB. Now these plans are essentially going to be discarded. This does not make sense to me.
3. On page 13309 at the end of the first paragraph it refers to the financial stability of the FHLBs if members withdraw from the system. The Amendment sights the reason for this withdrawal would be possible financial instability of the system. We have been members of the system since the early 1990’s. We currently cannot withdraw from the system unless we give notice and then wait 5 years. This current system seems to me to offer great stability to the system. We have never considered leaving the system. However, if dividends are suspended by the FHFB we may be looking at a classified asset (non-accrual asset) on our balance sheet and be forced to withdraw from the system. You are creating a problem that does not currently exist.
4. We use the FHLB advances extensively. If this new Amendment as proposed does come into play and dividends are severely reduced or suspended I would suspect that advance rates would increase. The increase could be significant. If that happened you are going to force community banks like Federation Bank to look elsewhere for liabilities to fund our loans. Again, you would be forcing us to leave the system when we really don’t want to.

5. I feel this Amendment is disproportionately unfair to community banks. You are forcing us out of the system and by doing that you are hurting small towns and the customers we serve. If we do not have access to reasonably priced advances we are not going to be able to compete with large banks that can go to the capital markets.
6. You want permanent capital in the system and that is understandable because it gives the stability to the system that is needed. But, I would argue that you already have permanent capital. Remember that we cannot withdraw our capital until we have given notice and waited 5 years to redeem it.
7. I am not concerned with par value. It would be interesting to know how many members left the FHLBs in Seattle and New York because of a fear of reduced par value when they went through their recent problems. I would guess that it was very few.
8. As far as impairment is concerned I do not worry about that in the present system. What you have to remember is impairment is when there is no or very little value in the asset. The FHLBs will always have “forward earnings” and that seems to me to avoid the impairment issue.
9. It seems to me by putting a 1% extra capital requirement on “other assets” you are encouraging riskier assets. This seems contrary to the original intent of the Amendment.

For these reasons I would urge you to withdraw the proposal and issue an Advanced Notice of Proposed Rulemaking (ANPR). This would allow some meaningful dialogue and hopefully a compromise can be reached. As in all proposed regulation there are compromises to be worked out and that can be done easiest with an ANPR.

Yours truly,

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