BB&T

Branch Banking & Trust Co.

Mail Code: 001-16-17-10
200 West Second Street
Winston-Salem, NC 27101
(336) 733-2818
Fax (336) 733-2810

Morris D. Marley
Senior Executive VIce President

June 23, 2006

Federal Housing Finance Board
1625 Eye Street NW
Washington, DC 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 no. , 2006-03

Dear Sir or Madam:

We commend the Federal Housing Finance Board in their commitment to ensuring that the Federal Home Loan Banks are adequately capitalized and operate in a safe and sound manner. Likewise, we also support the financing of housing and community lending through the utilization of various Federal Home Loan Bank lending programs. Because of our involvement with the Federal Home Loan Bank of Atlanta and our commitment to the Federal Home Loan Bank System, we feel obligated to express our concerns regarding the above referenced proposed rule. We appreciate the opportunity to comment on the proposed rule as it will potentially have a profound impact on the member financial institutions as cooperative owners of the system and, ultimately, on the Federal Home Loan Bank System.

We concur with your objective of improving the Federal Home Loan Banks' capitalization and the importance of preventing capital stock impairment. However, we have serious concerns regarding the method of achieving the targeted retained earnings levels and the consequences that may result if the proposed rule is implemented.

In general, our concerns relate to the retained earnings requirement and the dividend limitation. Our particular concerns are the following:

(1) the Retained Earnings Minimum (REM) calculation does not reflect the underlying risks associated with specific asset classes;
(2) the potential reduction in dividends that would result due to the proposed dividend limitation; and
(3) the delay in dividend payments as a result of the requirement to declare and pay dividends after the close of the quarter.

The proposed REM calculation requires the same amount of retained earnings for low-risk assets such as cash and fed funds as would be required for higher risk assets such as asset-backed investment securities. If the target retained earnings level is not achieved then a reduction in the dividend would negatively impact the member bank's funding cost. Because member banks are required to maintain a certain percentage of Federal Home Loan Bank stock based on the amount of Advances outstanding, a reduction in the dividend level would directly impact a member bank's net funding cost. The funding cost could increase significantly if a dividend was reduced or withheld, thus making alternative funding sources much more attractive. Also, a delay in the dividend payment until after the close of the quarter could cause volatility in a member bank's earnings due to accrual adjustments after quarter-end.

If there is a reduction in dividends and/or a delay in dividend payments, the attrition from member banks seeking alternative funding sources would ultimately impact the Federal Home Loan Bank System. As banks move towards capital markets and away from the Federal Home Loan Banks, there will be even greater pressure on the income and retained earnings of the Federal Home Loan Banks.

We would encourage you to consider the following suggestions to address the above concerns:

(1) developing a retained earnings target that more accurately reflects the underlying risks associated with specific asset classes;
(2) modifying the proposed rule to include a specific deadline for achieving the minimum retained earnings without a specific limitation on dividends during that period; and
(3) allowing the dividends declaration to coincide with the quarter in which it is earned.

Thank you for your diligence in pursing the mission of the Federal Home Loan Bank System and for your consideration of our concerns regarding the proposed rule. We hope that your consideration of our concerns will result in the modification of the proposed rule.

Sincerely,

Morris D. Marley

Morris D. Marley