The Lafayette Life Insurance Company

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June 23, 2006

Federal Housing Finance Board
1625 Eye St., N.W.
Washington, D.C. 20006
ATTENTION: Public Comments

Re: Federal Housing Finance Board; Proposed Rule: Excess Stock Restrictions and Retained Earnings; RIN Number 3069-AB30; Docket Number 2006-03

Gentlemen:

This proposal adversely impacts us as a customer, shareholder, and stakeholder of the FHLBI.

- The proposal imposes a dividend limitation of 50% of earnings in the event that an FHLBank has not met the proposed retained earnings requirement. This reduction is at the expense of our members' earnings and will increase the overall borrowing costs for the members. Alternatively, members may voluntarily withdraw from the FHLBank, thus creating more risk for the FHLBank and its remaining members. If the Finance Board decides to finalize this rule, the payout limitation on dividends should be significantly reduced to allow the FHLBanks more time to meet the retained earnings requirement.

- The proposal will reduce FHLBank asset size, mortgage holdings and liquidity investments thereby reducing income and ultimately funds available to help low income families obtain housing under the successful Affordable Housing Program. Although difficult to predict, we estimate for the FHLBI that AHP grants to families will be reduced by over $1 million per year.

- The proposal ignores the Gramm-Leach-Bliley Act fungible capital structure, which created permanent FHLBank capital to absorb losses. FHLBank stock is held precisely for this purpose. Under this recent law passed in 1999, stock and retained earnings should be treated equally with respect to losses. This proposal, if finalized, immediately decreases the economic value of the stock today, and this will be done to address the highly unlikely risk of future capital impairment.

- The proposal creates an unnecessarily higher retained earnings charge for having an FHLBank hold liquid assets, such as Treasury bills, agency securities, and cash. This is contrary to safety-soundness principles and the industry's need for immediate access to liquidity.

- The proposal needlessly places the FHLBanks with mortgage purchase programs at a disadvantage. These programs are mission consistent and have fostered housing finance in our district by giving our members a competitive secondary market alternative. You should focus on ways to allow the FHLBanks to reduce and manage their mortgage purchase portfolios through securitization.

- The restriction on the payment of stock dividends eliminates the tax-deferred benefit, which accrues to the membership. This is contrary to statute that expressly authorizes the payment of stock dividends. Elimination of stock dividends also ignores the fact that cash dividends automatically reduce the capitalization of an FHLBank, while stock dividends maintain capital levels. Capitalization is a key consideration by the independent ratings agencies when evaluating an organization's on-going credit rating.

- The proposal creates unintended consequences. Holding more retained earnings than needed from a risk perspective deleverages the FHLBank, reduces shareholder returns, and ironically may cause member withdrawal. Rather than use the proposal's one-size fits all formula, the Finance Board should adopt a risk based approach tying the level of retained earnings to the risk on the balance sheet. This is more in line with the other federal banking regulators and the Basel capital studies. Given this, it would be best to withdraw the current proposal and consider a future risk-based capital rulemaking.

Sincerely:

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