



FIRST FEDERAL BANK
OF CALIFORNIA®

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James P. Giralдин, President and Chief Operating Officer

June 19, 2006

Federal Housing Finance Board
1625 Eye Street, NW
Washington, D.C. 20006

Attention: Public Comments
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

Ladies and Gentlemen:

The Management of First Federal Bank of California submits the following as our formal comments on the proposed revisions to the Capital Regulations (12 CFR Parts 900, 917, 925, 930, 931 and 934) promulgated by the Federal Housing Finance Board (“the Finance Board”) and published in the Federal Register on March 15, 2006.

We thank the Finance Board for giving the Members of the Federal Home Loan Banks the opportunity to comment. We are a Member of the FHLB-SF where we currently have an investment in excess of \$200 million in stock. We utilize the FHLB-SF for liquidity purposes and currently have Advances exceeding \$3 billion. We do not participate in any of the FHLBank mortgage acquisition programs. We are considered a “portfolio lender,” as our primary business is the origination of home loans in the communities we serve, for our balance sheet. A primary underpinning of our business model is the ability to obtain funds at reasonable rates which can then be lent to the members of our community to promote homeownership.

We understand the role of the Finance Board as the regulator is to insure that the FHLBanks operate in a financially safe and sound manner. Appreciating this concern, it appears to us that the Proposal, in its current form, is counterproductive towards that goal. Generally, the Proposal places unnecessary burdens and costs upon the FHLBanks to the detriment of their mission. Some of the strictures proposed by the Finance Board will have the unintended consequence of directing Members of the System to either seek other sources of funding or make fundamental changes to their business model - neither of which we believe is a goal of the Finance Board.

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The level of homeownership in the United States has been touted by the Administration as one of their accomplishments; the current proposal is at a “cross purposes” with that goal.

We would respectfully request that the Finance Board withdraw the current proposed regulation and instead issue an Advanced Notice of Proposed Rulemaking (“ANPR”). We believe the use of the ANPR process will work to satisfy both the concerns of the Finance Board without incurring the effect of the unintended consequences noted above.

Should the Finance Board be unwilling to withdraw the Proposal, we would then submit the following as significant concerns of a Member who relies upon the FHLBank System.

Elimination of Stock Dividends

The Finance Board cites “stock dividends” as contributory to the situation of “excess stock” at a few of the FHLBanks. Our experience at the FHLB-SF demonstrates that the payment of stock dividends and “excess stock” are unrelated. Specifically, the FHLB-SF has paid stock dividends for several years and yet does not have an “excess stock” issue. The Board of Directors and Management of the FHLB-SF determined years ago that “excess stock” would be redeemed above a specified level. With such a policy, an FHLBank would not find itself in a position of having “excess stock.”

As a borrower from multiple sources to fund our balance sheet, we utilize an “all-in” cost approach. As we compare the borrowing costs from various sources we “credit” the FHLB-SF borrowing cost for the tax-deferred nature of the dividend we receive. In other words, the dividend we receive from the FHLB-SF reduces the nominal cost of borrowing from that source; the tax-deferred treatment of that dividend also provides a benefit which reduces the cost of borrowing from that source.

Increasing a Member’s borrowing cost simply to solve an “excess stock” problem, when other alternatives are available, does not seem to support the public policy mission of the FHLB System. Accordingly, we would request that this provision be removed from the Proposed Regulation.

Retained Earnings

Notwithstanding that the Graham-Leach-Bliley Act was intended to establish the capital structure and standards for the FHLB System and the Finance Board does not wish to engage the

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Congress for clarification and/or guidance on the capital adequacy standards, the current proposal is overly simplistic and detrimental to the mission of the FHLBanks.

The application of a rule which would require \$50 million plus 1% of Non-Advance Assets in Retained Earnings to the 12 FHLBanks, which are operated distinctly and diversely, is inappropriate. If the Finance Board's stated goal is to insure that there is a "cushion to absorb losses" at each FHLBank, then a discrete analysis is required for each Bank. Rather than attempting to provide a "one size fits all" metric to all of the Bank's, the Finance Board, the Members and the Public Policy Mission would be better served by providing a framework in which each Bank would determine the adequacy of their Retained Earnings, subject to regulatory oversight.

From our perspective, supervision concern is raised by the Finance Board after having recently issued 2003-AB-08 and then proposing the current rule. Without further explanation, the Members are left to question the adequacy of the supervision of the FHLBanks.

Notwithstanding our objection, the specificity in the rule for an FHLBank to come into compliance with the proposed rule will have a ruinous effect on the Membership. According to published reports, the FHLB-SF "shortfall" between current Retained Earnings and the amount necessary to meet the Finance Board's proposed regulation would be \$500 million. The Finance Board further proposes that an FHLBank not meeting the new "minimum" retained earnings guidance would curtail the dividends to their Members by 50%.

As noted above, the dividend is a part of the calculation for the "all in" borrowing cost for a Member. To reduce the dividend is to simply increase the cost of borrowing to the Members. At a minimum, the migration from current retained earning levels to those proposed by the rule should be determined by the Board of Directors of each FHLBank, subject to regulatory oversight and specific concerns with respect to safety and soundness. Any lessening of the effect resulting from the imposition of this rule would be in support of public policy.

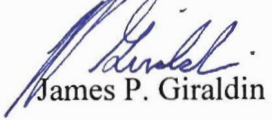
Finally, as a Member who experienced the last absconding of our funds, we are loathe to simply create a retained earnings bucket which could be taken once again; simply to insure that the par value of the stock would not fall below \$100. As a Member, it would seem the risk associated with the "breaking the buck" is far less severe then the prior occurrence of seizing our funds. One issue is temporary, while the other is permanent.

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Conclusion

As we have noted, the proposed rule will cause more harm than serve the public policy purpose of the FHLB System. We again request that the rule be withdrawn and an ANPR issued in which all of the aforementioned issues can be adequately addressed.

Sincerely,



James P. Giraldin

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