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June 20, 2006

Members - Federal Housing Finance Board
DC

Dear Members - Federal Housing Finance Board:

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

Attention: Public Comments

RE: Federal Housing Finance Board Proposed Rule #2006-03

Dear Members of the Board:

On behalf of the shareholders and Board of Directors of our institution, we support the premise that all Federal Home Loan Banks should operate in a safe and sound manner and be adequately capitalized based upon their individual risk profiles. The maintenance of a financially strong Federal Home Loan Bank System is critical to maintaining the value of the FHLB membership for the member financial institutions who are also the cooperative owners of the system.

Federal Home Loan Bank advances are a vital source of funding for the community bankers in South Carolina. Our institution, like the majority of South Carolina institutions are members of the Federal Home Loan Bank of Atlanta. Funding from the FHLBank Atlanta is a critical part of our overall funding and balance sheet strategy.

We believe the requirements outlined in the Finance Board's proposed rule 2006-03 on retained earnings and capital stock requirements for FHLBanks will have significant unintended consequences that could negatively affect the way FHLBank Atlanta provides funding and services to our institution. Our concerns in that regard are briefly outlined below:

Availability of funding: We believe the proposed rule would reduce the availability FHLBank advances which are a vital cost effective and readily available source of funding. Any

reduction in the capacity of the FHLBanks to fund advances to member institutions and assist them with their liquidity needs would be detrimental to the banking industry in South Carolina and as a result, the continued economic development of the communities we serve.

Negative Dividend Impact: FHLBank dividends are significant to our institution, especially when you consider that dividends effectively reduce the cost of the FHLB advances and make this source of funding more cost effective. To the extent that the dividends paid by the FHLBanks are reduced as a result of the retained earnings provisions of the proposed rule, this will have the effect of increasing the cost of this source of funding for our institution.

Generic Application of Retained Earnings Formula: The Retained Earnings Requirements portion of the capital proposal, while simple to calculate and is applied consistently to all FHLBanks, is neither fair nor equitable. This "one-size-fits-all" approach, as currently drafted, would require retained earnings to be held against all "non-advance assets", including low risk assets such as cash and overnight federal funds. This approach effectively penalizes an FHLB with a lower risk asset profile, while rewarding an FHLB with a more risky asset profile.

Summary

In summary, while we support the goal and mission of the Federal Housing Finance Board to assure that the FHLB System is financially sound, we suggest that the Finance Board withdraw the proposed regulation, and reissue an Advanced Notice of Proposed Rulemaking.

Such a procedure would provide greater opportunity to develop an approach that would ensure the safety and soundness of the FHLBanks without inadvertently causing economic harm to the community bank members of the system. More discussion could take place between the Finance Board and affected parties prior to the issuance of a proposed rule.

If the Finance Board does not withdraw the proposal, we urge the following changes:

- **Retained Earnings Formula.** The retained earnings requirement for non-advance assets (Cash, Federal Funds, Mortgage-Backed Securities and Acquired Member Assets) should be risk-based to reflect the difference in market and credit risk of the assets, similar to the manner used in financial institution capital standards.
- **Transition Period.** A specific deadline should be established for each FHLBank to achieve its retained earnings minimum. During this transition period, each FHLBank should be permitted to continue to set its own dividend policies without restriction, so long as the FHLBank remains on course to meet its required retained earnings minimum target by the deadline. As written, the proposed rule's transition provisions give each FHLBank an indefinite period of time to first achieve the retained

earnings minimum and apply the same percentage dividend limitation rate (i.e., 50 percent) during the transition period to all FHLBanks.

We appreciate the opportunity to comment on this proposal. We hope you will diligently consider the seriousness of the concerns we have expressed and either withdraw the current proposal, or modify the proposal to address these concerns before adoption is considered.

Sincerely,

Arnold Zipperer III
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