National Housing Conference

Celebrate the Legacy, Shape the Future

June 19, 2006

Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006

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 Number 2006-03

On behalf of the National Housing Conference (NHC), I am writing regarding the proposed capital rule referenced above and the effect this proposal could have on affordable housing.

The National Housing Conference is a nonprofit 501(c) (3) membership association dedicated to advancing affordable housing and community development causes. A membership drawn from every industry segment forms the foundation for NHC's broad, nonpartisan advocacy for national policies and legislation that promote suitable housing in a safe, decent environment across the nation.

Our recent study, "The Housing Landscape for America's Working Families 2005," shed light on a troubling trend across America—the fact that working a full-time job does not guarantee families a decent, affordable place to live. In fact, the housing problems of working families are more persistent and pervasive than many experts may have thought, and are not confined to cities, renters, or the East and West coasts.

NHC's concerns regarding the proposed capital rule stem from the very real potential that the rule will reduce the profitability of the FHLBank System as a whole and thereby reduce the overall contributions to the Affordable Housing Program (AHP). The proposed rule would require each FHLBank to meet a fixed formula minimum retained earnings standard of $50 million plus one percent of non-advance assets. Over three years, FHLBanks would have to add over $2 billion to their retained earnings as a result of this proposal. Estimates of the impact of this requirement include required increases of $500 million for the FHLB of San Francisco, $280 million for the FHLB of Seattle, $180 million for the FHLB of Cincinnati and $150 million for the FHLB of Pittsburgh. NHC is concerned that the required increases to the retained earnings of the FHLBanks will lead to significant reductions in AHP contributions.

The proposed limitation on dividend payments could have the consequence of driving large members from the FHLBank System. Many large members can access the capital markets themselves and as the "all-in" cost of FHLBank advances increases due to dividend limitation, these members could decrease their usage of FHLBank advances or even leave the System. This could result in the shrinking of FHLBank assets and earnings.

As you know, 10 percent of FHLBank profits are dedicated to the AHP. In 2005, a total of $280 million in AHP funds were awarded, funding hundreds of affordable housing units. If there is a decline in the number of large members, and thus profits, the Affordable Housing Program will be significantly curtailed.

Additionally, a decrease in volume of the System will result in a higher cost of advances. Smaller members have no other access to the long-term debt markets. Raising the cost of FHLBank credit to small financial institutions will directly affect the amount of affordable housing lending these members can do. It could also raise borrowing costs for working families who are struggling to find mortgage funding. In light of the recent consumer price index information release, there does not appear to be an end in sight to interest rate increases. Higher borrowing costs, combined with an interest rate increase, could serve to end the dream of homeownership for many Americans.

In light of these possible impacts, NHC requests that the Finance Board withdraw the proposed rule and issue an Advanced Notice of Proposed Rulemaking in order to better study the potential effects of such changes on the supply of affordable housing in our nation.

Sincerely,

Conrad E. Egan
President and CEO

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