



June 8, 2006

Federal Housing Finance Board
1625 Eye St., NW
Washington DC 20006

Attention: Public Comments
Federal Housing Finance Board Proposed Rule: Excess Stock
Restrictions and Retained Earnings Requirements for the Federal
Home Loan Banks
RIN #3069-AB30
Docket Number 2006-03

The First Federal Savings & Loan Association of Lorain is a very long time member of the Federal Home Loan Bank of Cincinnati and the Ohio Bankers League. Although this letter will indicate our displeasure with this regulation, we compliment the Finance Board for allowing us this opportunity to comment and also for providing an extended period of time for comments to this extremely important regulation which will dramatically affect all financial institutions as well as so many non-profit organizations which rely on affordable housing funds from the Federal Home Loan Bank System. As the Board of Directors of a financial institution we are pleased that the Finance Board is concerned with the safety and soundness of the System.

This letter is signed by the entire Board of Directors of The First Federal Savings & Loan Association of Lorain to indicate to the Finance Board that we feel this proposed regulation will have a dramatic negative effect on our Association for no valid reason. In fact, we feel this regulation has the potential of inappropriately reducing the safety and soundness of the Federal Home Loan Bank of Cincinnati.

Therefore, for the following reasons we respectfully request that the Federal Housing Finance Board withdraw the proposed rule from further consideration.

- The regulation will force the premature taxation of our excess stock.
- The regulation will reduce the size of our dividend income.
- The regulation will prohibit the use of stock dividends.
- The regulation treats our investment in stock as worthless.
- The regulation will reduce the size of the affordable housing program.
- The regulation blatantly ignores the law as established by Gramm-Leach-Bliley.
- The regulation does not address the specific issue of safety and soundness.



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THE REGULATION WILL FORCE THE PREMATURE TAXATION OF OUR EXCESS STOCK

The Board of Directors of this Association has made the conscious decision over all our years as a member of the Federal Home Loan Bank of Cincinnati to not redeem any of our stock investment. We maintain this investment, even though some of it is excess in the rules of the Bank, because we believe it is an excellent investment providing good returns while maintaining the safety of our investment. It seems to us that your proposed regulation will require us to redeem our excess stock which could be up to \$3,000,000.00. By forcing us to redeem, this regulation could potentially require us to pay over \$1,100,000.00 in taxes. We do not understand how this helps our Federal Home Loan Bank become safe and sound. We feel that our Board, not a Board in Washington, should have the right to make a decision when, and if, to cause such a tax burden upon us. And this decision should be made for reasons our Board feels are prudent in running our business. If it is the Federal Housing Finance Board's intent to create an additional tax on our Association and our industry, we strongly disagree with this method. The issue of taxation should remain in the hands of Congress.

THE REGULATION WILL REDUCE THE SIZE OF OUR DIVIDEND INCOME

While trying to build up reserves, our Bank will be forced to curtail its dividend payout to our Association. We are pleased to see our Bank has substantially built up its reserves since 2002. As a Savings and Loan Association with over 14% capital, we do believe in adequate capital. We also believe that the capital account includes more than retained earnings such as capital stock. Since our Bank has already exceeded its capital plan approved by you and continues to build its capital, it doesn't make sense that you should unilaterally change that plan under the guise of safety and soundness. And all of this at an unnecessary cost to our Association on an ongoing basis over the years.

THE REGULATION WILL PROHIBIT THE USE OF STOCK DIVIDENDS

Under the cloak of safety and soundness this regulation will prohibit the use of stock dividends. We can not understand a valid prudent business purpose for such a prohibition other than your desire to limit the amount of business our Bank can provide to its members. If excess stock truly causes a safety and soundness matter, this should be dealt with using other means after our Bank's individual risks have been determined and quantified. Stock dividends provide a legal deferral of taxes and are an important tool in financial planning. The decision to pay a dividend in stock belongs in the board room in Cincinnati not in Washington.



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THE REGULATION TREATS OUR INVESTMENT IN STOCK AS WORTHLESS

The regulation proposes to increase the capital position of the Bank but only through increases in retained earnings. No credit is given to our investment in the capital of the Bank through ownership in capital stock. To us it seems that the Finance Board deems capital stock to be worthless. We think this is wrong and we think that all stockholders in this United States would also disagree with the proposition that capital stock is worthless. In fact, by the act of Congress the Gramm-Leach-Bliley law makes our Bank's capital stock permanent. We further find it disturbing that the Federal Housing Finance Board proposes an approach contrary to an act of Congress.

THE REGULATION WILL REDUCE THE SIZE OF THE AFFORDABLE HOUSING PROGRAM

It is clear to us that for some time to come the profits of our Bank will be reduced. This will have the unintended consequence of reducing the funds available for the affordable housing programs - both mandatory and voluntary. Our Association has used these funds for many years in conjunction with Habitat for Humanity to provide affordable housing to many folks with limited financial ability in our market areas. We urge the Finance Board to consider this while considering the merits or lack thereof of this proposed regulation.

THE REGULATION BLATANTLY IGNORES THE LAW AS ESTABLISHED BY GRAMM-LEACH-BLILEY

One of the tenants of the Gramm-Leach-Bliley law was to provide for permanent capital in the Federal Home Loan Bank System. The stock in our Bank is part of capital and should be counted as such. This regulation not only would ignore the value of this stock investment but would force our Bank to almost immediately redeem a large portion of stock which currently could be held by the Bank for up to five years. The decision to redeem stock belongs in the board room in Cincinnati not in Washington.

THE REGULATION DOES NOT ADDRESS THE SPECIFIC ISSUE OF SAFETY AND SOUNDNESS

This regulation does not address any specific safety and soundness issue as it pertains to the Federal Home Loan Bank of Cincinnati. If the Finance Board has such issues with a specific Federal Home Loan Bank it should deal with them on an individual basis. The Finance Board should not attempt to address specific issues of individual Banks by trying to use a one size fits all approach to the entire system. Risk Management is very specific to each singular Bank.



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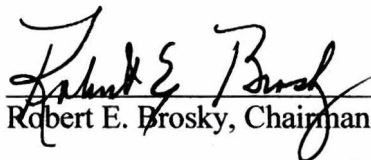


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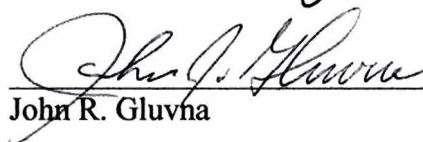
Although this Board of Directors does agree with the Finance Board that we must all be vigilant on the issue of safety and soundness and that more capital is better than less capital we strongly disagree that this proposed regulation is the proper avenue to address the issue of safety and soundness.

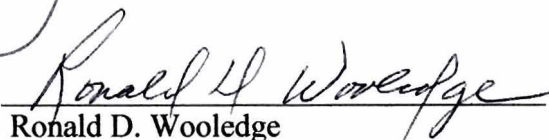
Therefore, the entire Board of Directors of the First Federal Savings & Loan Association of Lorain urges the Finance Board to completely withdraw from further consideration this proposed regulation.

Respectfully,

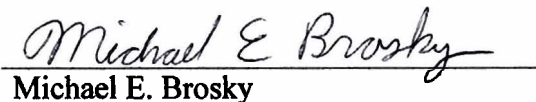

Robert E. Brosky, Chairman

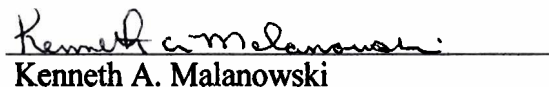

John R. Malanowski, Vice-President

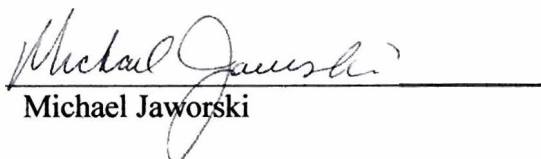

John R. Gluvna


Ronald D. Woledge


Robert F. Gradisek


Michael E. Brosky


Kenneth A. Malanowski


Michael Jaworski


Phil R. Stammitti

cc: The Honorable Mike DeWine, Senator
The Honorable George V. Voinovich, Senator
The Honorable Michael Oxley, U.S. Representative
The Honorable Paul Gillmor, U.S. Representative
The Honorable John Boehner, U.S. Representative
The Honorable Sherrod Brown, U.S. Representative



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