

Federal Housing Finance Board  
Washington, D.C.

Dear Sirs:

I am strongly opposed to the proposed regulation regarding the excess stock restrictions and retained earnings requirements for the Federal Home Loan Bank system. The regulation would require the banks to divest themselves of excess stock and establish new benchmarks for retained earnings. I am very familiar with the Federal Home Loan Bank of Cincinnati. Our organization has been a sponsor of over 50 projects throughout Kentucky which have utilized their Affordable Housing Program. These projects have greatly increased the quality of life for thousands of individuals, many of which are elderly and disabled. The impact of the proposed regulations would adversely affect the earnings of the Federal Home Loan Bank of Cincinnati and therefore reduce the amount of Affordable Housing Program funds available for these types of projects. This would represent a severe blow to affordable housing sponsors which are experiencing rising interest rates and increased construction costs without increases in funding assistance.

I practiced accounting for twenty years including the auditing of banks and thrifts. Although the rule is "intended to strengthen the capital structure of the FHLBanks", our knowledge of finance and accounting does not see how that could be the case. The proposed rule would require banks to divest themselves of their excess stock by repurchasing the stock with cash. The idea of reducing cash and capital for the purpose of "strengthening capital structure" accomplishes exactly the opposite. It increases risk and violates the sound capital plan the banks already have in place. The proposed dividend plan is far less attractive to member banks, placing the Federal Home Loan system at risk for capital. Requiring the bank to pay all dividends in cash reduces liquidity and provides a disincentive to the stockholders to continue as members. Purchasing the excess stock of members as required by the proposal is a taxable event for the stockholders and is a violation of the agreement that was made with the stockholders at the time they purchased their stock. All these aspects would add instability to the banks and adversely impact their ability to conduct business. If there are some particular banks that may benefit from an aspect of the proposed regulation, they should be addressed on an individual basis and not impose the impact on those banks which are financially sound and compliant with the capital requirements which were enacted by the Finance Board just four years ago.

We need the regional Federal Home Loan Banks. Their intimate knowledge of the needs and problems within the region are invaluable in providing the region's credit and housing needs. All efforts should be exhausted to ensure the future success and growth of the regional banks. The proposed regulations are detrimental to their success and would reduce their capacity. The proposed regulation should not be enacted.

Thank you for your consideration and the opportunity to comment.

Garry Watkins  
Wabuck Development Co. Inc.  
& Clayton Watkins Construction Co. Inc.  
P.O. Box 556  
1178 Owensboro Road  
Leitchfield, KY 42755-0556  
Phone: (270) 259-5607 or (270) 259-9361 Ext 312  
Fax: (270) 259-6071  
garry.watkins@wabuck.com