Republic Bank is writing to you in regards to the proposed rule on excess stock and retained earnings for the FHLBanks. Republic Bank has been a member of the FHLB of Indianapolis since 1993 and values the relationship that we have established. The FHLB provides a valuable alternative funding source for us that allows us to compete with much larger institutions.
Republic participates in AHP grants and CIP, both of which provide alternatives for our customers who are serving the affordable housing market.

We look at the dividends that are paid on the stock we are required to hold in the FHLBI as one of the components in determining the cost effectiveness of the borrowings. The stock we hold has always paid a dividend rate that is comparable to other assets we hold or at a minimum, at least high enough to offset overnight funding cost. The proposal to limit dividend payouts to 50% of earnings in the event that an FHLBank has not met the proposed retained earnings requirement will impact the economics of FHLBank membership. To the extent that we are required to hold stock that is paying a substantially below market dividend will diminish the cost effectiveness of borrowing from the FHLB and decrease our earnings. This ultimately impacts the consumer as we would be less competitive on rates and products we could offer.

We view this stock as a critical component of the FHLBI's capital structure and should be viewed equally when determining the capital levels at the FHLBanks. The Gramm-Leach-Bliley Act created permanent FHLBank capital to
absorb losses. FHLBank stock is held precisely for this purpose and thus
should be treated equally to retained earnings with respect to losses.

As a bank we are subject to risk based capital guidelines, which requires more capital to be held based on the risk on the balance sheet. It would seem that instead of using a one-size fits all formula for all FHLBanks, the Finance Board should look at adopting a risk based approach. This would be consistent with how other banking regulators view capital adequacy.
Other banking regulators also allow stock to be included in the calculation of tier one capital.

Republic Bank views the FHLBank system as crucial in providing funding alternatives, liquidity and a competitive secondary market alternative for mortgage loans. While it is understood that the purpose of this proposal is to ensure the safety of the FHLBank system, careful consideration should be given to how this proposal may impact member banks and in the end the
FHLBank system, if banks withdraw. Reduction in dividends in order to
build up unnecessary levels of retained earnings will require us to re-evaluate our use of FHLBI products. As indicated earlier, to the extent we are required to hold stock that pays a dividend that is below market, this will have to be factored into the overall cost of the FHLBI products.
It is our hope that the Federal Housing Finance Board will re-evaluate this proposal and address the risk presented by some FHLBanks on an individual basis or at least adopt a

proposal that would evaluate risk to capital based on the balance sheets of the individual FHLBanks.

Thank you for your consideration of our comments.

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