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June 6, 2006

The Honorable Ronald Rosenfeld
Chairman of the Federal Housing Finance Board
1625 Eye Street, NW
Washington, D.C. 20006

RE: Retained Earning Requirements for Federal Home Loan Banks
RIN Number 3069-AB30
Docket Number 2006-03

Dear Chairman Rosenfeld:

The proposed capital regulation for the Federal Home Loan Bank System (FHLB) has been formulated with the best of intentions. Unfortunately, the regulation has harmful consequences to the FHLB and its constituents of all socio-economic levels, and will cause long lasting negative impacts.

If you have any doubts about the sincere depth of concerns of the FHLB of Cincinnati's Board of Directors and management regarding the proposed capital stock regulation, then you need only look at the most recent filing of the bank's Form 10-Q. The statements made in that document affirm the Board's April 28, 2006, comment letter to the Federal Housing Finance Board (FHFB) on the proposed rule.

The FHLB of Cincinnati's voluntary programs (American Dream Home Ownership Challenge and New Neighbors) emanated out of a public hearing in Cleveland when the bank was challenged by Director Mendelowitz to exceed the required levels in Affordable Housing Program (AHP) activities required under existing law. Through the joint efforts of then public interest director and Chair Paul Tipps, former Chairman of the Democratic Party in Ohio, and Bob Bennett, also a public interest director and Chairman of the Republican Party in Ohio, the FHLB of Cincinnati established the American Dream Homeownership Program. This program eventually became the template for the New Neighbors program that provides permanent housing assistance for households displaced by Katrina and other hurricanes of 2005.

The voluntary AHP programs of the FHLB of Cincinnati were made possible because of its existing capital plan. Only one other FHLB made a financial commitment to assist the hurricane victims. This is not a criticism of the other banks, but rather a statement in support of the "Mission Related Innovation" you talked about at the May FHLB Council meeting. Innovation is here and happening – the Cincinnati Capital Plan works!

Please remember that the volunteer AHP programs and other mission related innovative works of the FHLB of Cincinnati were made possible by a capital plan recommended by FHFB staff and unanimously supported by the FHFB. There was not one action taken during the approximately four years of the implementation of the Cincinnati Capital Plan that demonstrated anything other than responsible corporate governance and daily excellence.

The proposed capital regulation puts all of the Federal Home Loan Banks under the same Memorandum of Understanding that now governs the FHLB of Chicago. The capital proposal limits possible mission related innovation, introduces uncertainty to the markets, and ultimately decreases both the tangible and perceived value of the Federal Home Loan Bank System.

I regret the embarrassment that the FHFB has faced at having to issue the Memorandum of Understandings. Management at the affected banks has been replaced with highly competent and effective leadership and we now need to allow them time to do their jobs. I am certain that the bank's directors are highly committed to rectify their situations to the satisfaction and approval of the FHFB.

Mr. Chairman, if the proposed capital regulation is passed, it will do exactly the opposite of what it is intended to do. Any resolution to all of the negative items of which the FHLB of Cincinnati has advised the FHFB, and the world through the Form 10Q filing, will in all likelihood come to pass. If I believed the new regulatory directive was correct and appropriate, I would be out in front in support of this proposal; however, I believe the proposed capital regulation is a flawed idea that was born out of sincere and good intentions. This issue can be likened to a family with twelve children. If two of the children misbehave, corrections are made and the parents give the wayward children time to change, but not punish the other ten.

I have been a successful community bank CEO for more that 26 years and base my views on my considerable experience and industry observations. If the FHFB passes this proposal, you will hurt, not help, the System and its members. Consequently, the FHLB directors and regulators will have to look for ways to explain how something so good, went so bad. That explanation will be rest squarely on the shoulders of the Federal Housing Finance Board.

Mr. Chairman, I respectfully request that you carefully consider the negative impact of this proposed rule and pull the regulation.

Very truly yours,

Stephen D. Hailer
President and CEO

cc: Federal Housing and Finance Board Members