OCCH
OHIO CAPITAL
CORPORATION
FOR HOUSING

88 East Broad Street
Suite 1800
Columbus, OH 43215
Phone 614-224-8446
Fax 614-224-8452
www.occh.org

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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 Ohio Capital Corporation for Housing (OCCH) is a nonprofit corporation that has raised more than $1 billion in corporate equity and has invested in nearly 300 housing developments, creating more than 16,000 units of affordable housing. Many of these housing developments were financed with the Affordable Housing Program from the Cincinnati Federal Home Loan Bank. Without the grants and low interest loans from the AHP program, the project teams would not have been able to develop housing communities with rents affordable to the elderly and to the low-income and moderate-income working families of Ohio.

We are concerned that the proposed Federal Housing Finance Board Rule will impair the Cincinnati FHLBank's ability to achieve its affordable housing mission. We respectfully urge the Federal Housing Finance Board (FHFB) to withdraw the proposed rule for the reasons below.

The proposal will: 1) Limit the amount of stock the FHLBanks may carry, in spite of the fact that it is considered permanent capital under federal law; 2) Prescribe a minimum amount of retained earnings in such a way that discriminates against and discourages advances borrowings and the successful mortgage purchase programs of the Cincinnati FHLBank both of which contribute to the profitability of the FHLBank; 3) Limit the payment of dividends; and 4) Preclude the payment of stock dividends, even though Federal law delegates that decision to the local FHLBanks. These requirements will be applied in a rigid, one-size-fits-all format, irrespective of the important differences among the various Home Loan Banks. When all four requirements are read together however, it is the inescapable conclusion that the FHFB has a goal of shrinking all of the FHLBanks and programs, including the Bank in Cincinnati.

__The Proposed Rule Will Eliminate the Cincinnati Bank's Voluntary Housing Programs and Greatly Diminish other Mandatory Housing Programs__

The Cincinnati FHLBank has a strong commitment to affordable housing and viable communities throughout Ohio, Kentucky and Tennessee. The successful Affordable Housing Program, which has helped nearly 35,000 households in the Cincinnati District, is funded through a 10 percent set-aside of net earnings. This pool of funding will be reduced as profits are reduced. Given the uncertainty over future retained earnings requirements and mandatory capital reductions, the Cincinnati board of directors believed it prudent to temporarily suspend two voluntary housing programs, New Neighbors and the American Dream Homeownership Challenge. The New Neighbors fund for hurricane victims, and the American Dream Homeownership Challenge program for minority and special-needs homebuyers have been used successfully to help our communities. These voluntary programs account for approximately 15 percent of the FHLBank's retained earnings shortfall, due immediately, if the rule passes as written. If the Cincinnati Bank is forced to shrink capital to comply with the proposed rule, resulting in declining profits, it will naturally follow that less funding will be available for these successful housing programs, and we are concerned that innovative affordable housing initiatives will be discouraged.

For the Cincinnati Bank, New Rules Enacted in the Name of Safety & Soundness are Simply Not Necessary, and Could Even be Harmful

The Cincinnati Bank is a conservative, well managed institution that maintains the highest possible rating with both Moody's and Standard & Poor's. The FHLBank is well-capitalized, successfully operating under a capital plan the FHFB approved in 2002. The rating of the Cincinnati FHLBank will likely be lowered for three reasons. First, because excess capital will be redeemed, the Cincinnati FHLBank will have less total capital under the proposed rule. It is not relevant to the markets or the rating agencies that the FHLBank's capital account may have a higher percentage of retained earnings. Second, less capital will result in reduced services to FHLBank members and their customers, which has a negative impact on the community at large. For example, because the rule requires additional capital for non-advance assets, the FHLBank may have to terminate or reduce the mortgage purchase program. Additionally, the FHLBank may not have the liquidity or flexibility to be able to continue offering same day advances. This all results in fewer choices for consumers, some of whom may not have alternative banking options within the regulated industry.

Finally, whether it is a policy goal or not, this rule will reduce liquidity. Contrary to the Basel capital debate for banks and thrifts, the Federal Home Loan Banks will be required to hold the same capital for cash and readily marketable securities as for other assets. Given the scarcity of capital, it will simply be too expensive to maintain more than the absolute minimum amount of liquidity.

The Proposed Rule will Trigger Additional Taxes for the FHLBank Members

The proposed rule will undermine the careful tax planning of all members of the Federal Home Loan Banks that currently issue stock dividends. The issuance of stock dividends permits the Cincinnati FHLBank to retain the capital to support housing and advance programs, and also permits shareholders to defer any taxation. Second, if adopted in its current form the rule will require the Cincinnati FHLBank to redeem excess capital as defined in the rule within 60 days. This forced redemption will also result in taxable gains and have an adverse tax impact on many FHLBank members.

For these reasons, as a stakeholder of the Cincinnati FHLBank, we respectfully request that you withdraw the Proposed Rule.

Sincerely,

Hal Keller
OCCH President

cc: Representative Pat Tiberi
Representative Deborah Pryce
Senator George Voinovich
Senator Mike DeWine