



ESTABLISHED 1912

# PEOPLES EXCHANGE BANK

MEMBER F. D. I. C.

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2 May 2006

Federal Housing Finance Board  
1625 Eye Street, N.W.  
Washington, D.C. 20006

Ladies and Gentlemen:

For the past decade member banks have benefited greatly from the diverse financial services, immediate source of liquidity, affordable housing programs and mortgage purchase program of the Federal Home Loan Bank of Cincinnati. It provides a more-than-fair stock dividend, and its capital to asset ratio of 5.11% is well above the 4% minimum requirement, which is the highest of the 12 Federal Home Loan Banks. It enjoys both a Standard & Poor and Moody Triple A rating. It has also attained SEC registration.

I wish to register my strong objections to the Federal Housing Finance Board's proposed rule that would mandate increasing retained earnings by cutting dividends to member banks even though our capital is adequate. We feel this proposal is misguided and conceptually confusing to our membership.

- "One Size Fits All" is unfair to the Cincinnati Bank by relating it to the other 11 banks. This rule does not take into account the following:
  - The Cincinnati Bank's exclusive issuance of Class B stock, with a 5-year option on redemption, defined as "permanent stock" by Gramm-Leach-Bliley (GLB);
  - The nature of the cooperativeital feature of the Bank's Capital Plan; and
  - The voluntary nature of the membership base, which means that the Bank must balance cost-effective products and services with a return on the members' capital investment, which would greatly diminish the product and pricing of our financial services offered.
- We believe that this proposal will erode the value of membership in the Cincinnati Bank :

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BEATTYVILLE, KY 41311  
606 464-3631  
FAX 606 464-8857

P.O. BOX 398  
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606 663-9500  
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1113 B. PIONEER DR.  
WINCHESTER, KY 40391  
606 744-9400  
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100 MARY LYNN DR., SUITE 13  
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502 868-8860  
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203 BURKESVILLE STREET  
COLUMBIA, KY 42728  
270 384-1735  
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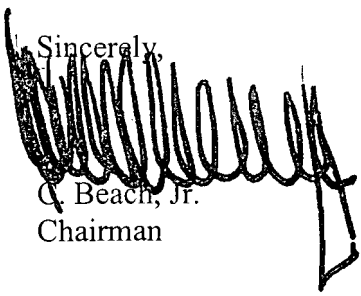
- It will result in lower liquidity, lower capital levels and lower profitability;
- If passed and dividends can be paid only in cash, this proposal would create a tax event for members for the excess stock replaced by the bank to meet the regulatory limit on excess stock;
- It would eliminate tax deferrals on future dividends by prohibiting the bank from paying stock dividends;
- Ultimately it would weaken the Community Banking System that the government has so historically supported;
- This regulation would minimize the role of the Board of Directors by dictating policy and procedures for the expert planning, the sound investment philosophy and financial management which have made the Cincinnati Bank stand above its peers. If this proposal were passed, it would greatly diminish the overall board and senior management of the Cincinnati Bank.

Not knowing the future impact of the proposed rule has resulted in the board terminating the \$15 million Affordable Housing Program allocated for Katrina victims. The bank's 10% set-aside for affordable housing reached a milestone last year. Subsidy awards exceed \$200 million since 1990, supporting over 35,000 units of affordable housing. In 2005 alone, the bank awarded \$20.8 million in AHP subsidies to members to create over 1,800 units of affordable housing.

We strongly and urgently seek your assistance in ensuring that this proposal not be enacted and that recognition be given to a well-functioning conservatively-managed financial institution which serves its mission well

Your interest in my concerns will be greatly appreciated.

Sincerely,



C. Beach, Jr.  
Chairman