Kentucky Bank

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May 5, 2006

Federal Housing Finance Board
1625 Eye Street, 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 Number 3069-AB30
Docket Number 2006-03

Please accept and consider these formal comments on the proposed revisions to the Capital Regulations published recently in the Federal Register.

I am Chairman of Kentucky Bank, a member institution of the Federal Home Loan Bank of Cincinnati. In addition, I served on the board of directors of the FHLB of Cincinnati when that bank's current capital plan was developed to comply with provisions of the Gramm-Leach Bliley Act of 1999.

I strongly support the current capital plan and oppose the proposed changes. The current plan permits members to receive dividends in the form of stock. This additional stock is equity capital for the FHLB, so it strengthens their balance sheet. A higher ratio of equity to assets is a measure of increased safety and less risk to the shareholders. Since the Federal Housing Finance Board is charged with regulating safety and soundness of the FHLBs, it seems to me you would support the idea of excess stock rather than seek to eliminate it.

Many members are making the choice to hold those stock dividends over time to gain a modest advantage by postponing tax payments. They are making that choice voluntarily and with full knowledge of all potential risks and rewards. Your proposal for mandatory redemption of excess stock takes away that choice. Why shouldn't our members be able to freely make a choice that benefits both them and the FHLB? It is a choice Kentucky Bank would prefer to keep.

At the same time the proposal eliminates some FHLB capital, it requires rapid increase in another form of capital, retained earnings. In order to accomplish this, dividends will be slashed to 50% of earnings. That will have a negative impact on the current earnings of Kentucky Bank. Since the FHLB is currently capitalized very well, we see no need to reduce our earnings just to make a change in the capital accounts at the FHLB.

The Cincinnati FHLB established a very generous voluntary program to help the victims of Hurricane Katrina. This program will reduce FHLB earnings and dividends, but member banks, Kentucky Bank included, still expected an acceptable dividend rate. If the proposal is adopted, the dividend rate will be slashed and will no longer be in the range I would consider acceptable. Therefore I support the decision of their board under these unexpected circumstances to suspend that voluntary program.

I urge you to withdraw the proposal and leave the current capital plan intact.

Sincerely,

Buckner Woodford
Chairman