Independent Bank
EST. 1864

June 7, 2006

Federal Housing Finance Board
1747 Pennsylvania Ave NW
Washington, DC 20006

RE: Excess Stock and Retained Earnings Federal Housing Finance Board Regulatory Proposal for the FHLBanks

Dear Board Members:

I am writing to voice my concerns regarding the above proposal.

As the President and CEO of a community bank in the Metro-Detroit area, I find this proposal of particular concern. Below are concerns of mine that I hope you consider.

- The proposal ignores the Gramm-Leach-Bliley Act fungible capital structure, which created permanent FHLBank capital to absorb losses. FHLBank stock is held precisely for this purpose. Under this recent law, stock and retained earnings should be treated equally with respect to losses. This proposal, if finalized, immediately decreases the economic value of the stock today, and this will be done to address the highly unlikely risk of future capital impairment.

- The proposal will reduce FHLBank asset size, mortgage holdings and liquidity investments thereby reducing income and ultimately funds available to help low-income families obtain housing under the successful Affordable Housing Program. Although difficult to predict, it appears that AHP grants to families will be reduced by over $1 million per year.

- The proposal creates unintended consequences. Holding more retained earnings than needed from a risk perspective deleverages the FHLBank, reduces shareholder returns, and ironically may cause member withdrawl. Rather than use the proposal's one-size fits all formula, the Finance Board should adopt a risk-based approach tying the level of retained earnings to the risk on the balance sheet. This is more in line with the other federal banking regulators and the Basel capital studies. Given this, it would be best to withdraw the current proposal and consider a future risk-based capital rulemaking.

Thank you in advance for considering my concerns.

Sincerely,

Ronald L. Long
President/CEO
RL/CAK

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