June 7, 2006

Mr. Ronald A. Rosenfeld, Chairman
Federal Housing Finance Board
1625 Eye St., N.W.
Washington, D.C. 2006
ATTENTION: Public Comments

Dear Sir:

The Community Bankers Association of Georgia (CBA) is a non-profit trade organization serving over 320 locally owned and operated community banks and thrifts plus more than 250 associate member companies throughout the state of Georgia. The Association offers educational training, networking events, group purchasing and political representation for their members to enhance their profitability and growth. CBA has served the Georgia community banking industry for over thirty years.

We are writing you on behalf of our member community banks and thrifts to provide you with comments regarding the Federal Housing Finance Board Proposed Capital Rule establishing Excess Stock Restrictions and Retained Earnings Requirements for Federal Home Loan Banks. We will provide some brief background information and then address our concerns with the proposal.

BACKGROUND: First we would like to say that we support the premise that all Federal Home Loan Banks should operate in a safe and sound manner and be adequately capitalized based upon their risk profile. The maintenance of a financially strong Federal Home Loan Bank System is critical to maintaining the value of the FHLB membership for the member financial institutions.

Federal Home Loan Bank advances have become a vital source of funding for the community banking industry in Georgia over the last several years. The majority of the CBA's member institutions are members of the Federal Home Loan Bank of Atlanta and most of them do use the services of the Atlanta FHLB to assist them with their funding needs. It is our understanding that 230 Georgia community banks received advances from the Federal Home Loan Bank of Atlanta in the last twelve months. Funding from the FHLB has become a critical part of the overall funding strategy for most community banks and some of the community banks use FHLB advances quite extensively.

ISSUES OF CONCERN: We are concerned that the new requirements outlined in the capital proposal will have significant unintended consequences and could negatively impact the community institutions that CBA serves in a substantial way. Our concerns in that regard are briefly outlined below:

Availability of funding: Any reduction in the capacity of the FHLB to fund advances to community banks and thrifts and assist them with their liquidity needs would be of great concern to the CBA and its member institutions in Georgia. Through the FHLB, CBA member institutions are able to gain access to the capital markets for a portion of their funding, a source that would otherwise be unavailable to smaller institutions. As mentioned above FHLB advances have become a critical source of funding for the community institutions in this state. In turn, these advances have become vital to the continued economic development of the communities served by CBA's member institutions. We are concerned that the capital proposal would reduce the availability of this cost effective source of funding for our members.

Cost effectiveness of the funding: By providing community institutions with access to the capital markets the FHLB assists these institutions in their ability to offer pricing which is more competitive in the marketplace. The dividends paid to its member institutions by the FHLB are generally not viewed as a critical source of income by CBA member institutions. However, the dividends are not insignificant, especially when you consider that the dividends effectively reduce the cost of the FHLB advances and make this source of funding more cost effective. To the extent that the dividends paid by the FHLB are reduced as a result of the capital proposal, this will have the effect of increasing the cost of this source of funding for CBA member institutions. Such increased cost of funding could result in loss of business for CBA member institutions due to their inability to offer competitive pricing.

Disparate impact on smaller community based financial institutions: To the extent that the requirements in the new capital proposal would result in a reduction in the availability of FHLB funding and/or in an increased cost of FHLB funding for CBA member institutions, the ability of smaller community financial institutions to remain competitive in the marketplace will be disproportionately impacted. Larger financial institutions have greater access to the capital markets. As a result of their ready access to the capital markets, larger institutions will not be as dramatically impacted by changes in the cost or availability of FHLB funding. FHLB advances have allowed smaller community financial institutions to effectively gain access to the capital markets; and in turn, this has allowed them to remain competitive with larger institutions. We have concerns that the implementation of the capital proposal could upset this competitive balance.

Approach seems to be "one-size-fits-all": The Retained Earnings Requirements portion of the Capital Proposal appears to be simple to calculate and would appear to provide consistent regulatory treatment from one FHLB to another. However, the simplicity and consistency appear to have been achieved by a "one-size-fits-all" approach which does not result in the most fair and reasonable system for all FHLBs. For example, the retained earnings requirement would require retained earnings to be held against all "non-advance assets", including low risk assets such as cash and overnight federal funds. Such a system that gives no consideration to the level of risk of the "non-advance assets" held by a particular FHLB seems to penalize the FHLBs with lower risk asset profiles. This hardly seems fair or reasonable. Secondly, the dividend limitations are structured to apply across the board to all FHLBs even though the proposal indicates that the length of time required to reach the required level of retained earnings varies widely from one FHLB to another. Again, while consistent, this hardly seems fair or reasonable. Under the proposal these FHLBs would be required to cut their dividend levels, albeit for a shorter time, negatively impacting the cost effectiveness of advances for their member financial institutions. Again, this approach seems to penalize those FHLBs who, on their own without the proposed requirement, have been operating with higher proportionate levels of retained earnings.

In summary, we support the goal and mission of the Federal Housing Finance Board to assure that the FHLB System is financially sound. However, we would caution that the approach taken to reach this goal should be examined extremely carefully in order to avoid unintended consequences. It is critical to community based financial institutions for FHLB funding to remain available at a cost that allows them to remain competitive in the marketplace. We are concerned that the proposal, if adopted in its current form, could have a disparate impact on community based financial institutions and their customers and the communities they serve. As a result we are concerned that the impact could be quite negative on the various local economies where CBA member institutions operate. Finally, it seems fair and reasonable for whatever approach that is used to require the growth of retained earnings, to reward rather than penalize those FHLBs who operate currently with lower asset risk profiles and higher relative retained earnings levels.

We appreciate the opportunity to comment on this proposal. We hope your will diligently consider the seriousness of the concerns we have expressed and modify the proposal to address these concerns before adoption is considered.

Sincerely,

Chris Maddox, Chairman, CBA of Georgia
The Peoples Bank, Winder – CEO

Steven D. Bridges
President & CEO, CBA of Georgia