June 7, 2006

I believe the proposed rules could have unintended detrimental consequences for your institution as a member of the FHLBank system.

1. Stock dividends should not be prohibited. Stock dividends provide a tax benefit to members that should not be eliminated. Given the adoption of an appropriate limit on the amount of excess stock, there is no basis to prohibit stock dividends. If an Flank controls the amount of excess stock outstanding, no regulatory objective is achieved by prohibiting stock dividends.

2. The limit on excess stock should be higher than 1 percent of assets. The preamble to the proposed regulation provided no explanation on how the 1 percent limit was determined. Notwithstanding, 1 percent appears to be unreasonably low. A higher limit would provide greater flexibility for the FHLBank to hold liquid assets and thereby maintain higher liquidity, increasing its ability to operate in a safe and sound manner and better serve its members fluctuating advance needs.

3. there should be a reasonable phase-in period to meet the REM. The proposed rule would limit dividends immediately if the REM is not met when the regulation is effective. It is unreasonable and unfair to impose a dividend restriction the day the rule becomes effective. There should be at lease a three-year implementation period where dividend restrictions are not imposed if the FHLBank is making progress in meeting the REM.

4. The REM applicable to money market assets should be reduced. There appears to be no justification for imposing the same retained earnings requirement on money market assets as is required for 30-year, fixed-rate mortgages.

5. Once fully implemented, there should be some flexibility before dividend restrictions re imposed. The proposed rule would impose the 50 percent limitation immediately when an FHLBank failed to meet its REM. This will effectively require and FHLBank to hold substantially more than its REM in order to prevent a violation through normal balance sheet volatility.

6. Clarify that dividends paid and income earned in a quarter are independent. The proposed rule imposes limits on dividends based on a percentage of income earned in a quarter. Standard corporate practice does not tie dividends to income earned in a period (except over the long term) and dividends are generally stable even though income is not. We would assume members prefer a stable dividend policy, especially when income can be materially impacted in a single quarter by gains and losses related to FAS 133. While the imposition of dividend restrictions requires that dividends be related to income earned in a quarter, any final rule should make clear that dividends need not be related to earnings in a certain time period if the FHLBank is in compliance with its REM. The FHLBank need only have sufficient retained earnings to meet its REM after payment of the dividend.

7. The proposed rule should be drawn so that the issues can be further studied and input from members appropriately considered.

I urge you to take these matters into consideration before the proposed regulations are accepted.

Best Regards,
F.A. Sewell, III
Chairman of the Board
First Bank and Trust Company
Clinton, OK