



May 12, 2006

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

Re: Public Comments on Proposed Capital Rule

Dear Sir/Madam:

I am writing today to express my deep concern about the impact of the proposed capital rule on smaller community banks. It appears that the proposal paints with a broad brush across the entire FHLB system due to the capital problems experienced by a few FHLB banks. Other banks in the systems are already making significant progress toward achieving the enhanced capital standards outlined in the plan.

The spillover impacts of this proposed rule for FHLB members is considerable. They include:

- Substantially lower dividend rates during the transition period.
- Loss of tax deferral of dividend payments.
- Repurchase of excess stock could trigger tax consequences for many members.
- Reduction in FHLBank's capital stock, assets and profits would make fewer funds available for the Affordable Housing Program and voluntary housing programs.
- Would increase members' all-in cost of advances during the transition period of lower dividend rates if activity stock purchase is required.
- Reduction in liquidity balances resulting from the proposal could affect the terms and availability of advances community bank members now rely on.

Banks face a wide spectrum of business fighting for deposit business; Other Banks (branching), credit unions, brokerage firms, mutual funds, internet banks are all looking to capture the same deposit dollars. Community banks will rely more heavily on the FHLB for liquidity going forward. This regulation will likely have a disproportionate effect on community banks that hold relatively more advances and capital stock compared to large members.

We respectfully urge you the Finance Board to withdraw the proposed regulatory rule.

Respectfully submitted,

  
Gary J. Koester  
President

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