DON BALL

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May 15, 2006

Federal Housing Finance Board
1625 Eye Street NW
Washington, D.C. 20006
ATTN: Public Comments

RE: Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks

Federal Housing Finance Board Directors:

As a former member of the FHLBank Cincinnati Board of Directors and a current member of its Affordable Housing Advisory Council, I am writing to express my opposition to your proposed rule. This rule will have negative short-term effects as well as harmful long-term consequences to the FHLBank, its members and, ultimately, their customers.

In my role as an FHLBank Director, I was well aware of the strong financial position held by the FHLBank based on its profitability, liquidity position and capital compliance. Maintenance of the triple-A credit rating was, and remains, a board priority. The FHLBank's strong credit position is at risk due to the proposed rule's limit on excess stock, prohibition of stock dividends, and the required increased level of retained earnings. The combination of these provisions will have the effect of reducing the FHLBank's liquidity, reducing the FHLBank's product and service offerings, and entirely disrupting the capital plan that was in place during my service on the board.

Additionally, during my tenure, the board established a Retained Earnings Policy based on a risk-analytics model, accounting for literally thousands of risk-based scenarios. The FHLBank exceeded the high end of our policy's range by year-end 2005, and continues to add to retained earnings quarterly. The retained earnings formula mandated in the rule and the resulting dividend penalty during the transition period seem unwarranted to meet the risk-based needs of the Cincinnati FHLBank.

As a current member of the FHLBank's Affordable Housing Advisory Council, I am deeply disappointed with the long-term consequences of this proposed rule. The pressures on earnings will be felt through the corresponding reduction of the 10 percent earnings set-aside for the Affordable Housing Program (AHP). This program has worked exceptionally well to provide thousands of lower-income families with housing because of the strong partnerships among community banks and local housing sponsors. As a long-time home builder in Kentucky, and as the current chairman of the Kentucky Housing Corporation, I have seen first-hand the effectiveness of this public-private model.

During my tenure with the board, the FHLBank used the successful AHP model to create two voluntary programs, The American Dream Homeownership Challenge for minorities and special-needs homebuyers, and New Neighbors, a homeownership grant program for hurricane victims. In light of the uncertainty of the financial pressures of this proposed rule, the FHLBank board temporarily suspended both of these programs. While these temporary suspensions are personally and professionally discouraging, I understand the board's rationale behind that decision. The two voluntary housing programs represent over 15 percent of the projected $100 million immediate shortfall in retained earnings, pending approval of the rule as written. It was the board's fiduciary responsibility to its members to plan for that outcome. It is my hope that the FHLBank will resume both of these innovative programs, pending a favorable resolution to this rule-making process.

The FHLBank and its 741 member institutions are critical to the housing finance and community investment in Kentucky, Ohio and Tennessee. To maintain this productive, cooperative partnership, I urge you to withdraw this rule.

Sincerely,

Donald R. Ball
Chairman, Ball Homes
Lexington, Kentucky

C:
U.S. Senator Mitch McConnell
U.S. Senator Jim Bunning
U.S. Congressman Geoff Davis