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May 18, 2006

Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006-4001

Via e-mail: comments@fhfb.gov

Re: Federal Housing Finance Board. Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks. RIN Number 3069-AB30. Docket Number 2006-03.

Dear Federal Housing Finance Board:

On behalf of community bank members of the Independent Bankers of Colorado (IBC) that are FHLBank members, we submit this comment letter in opposition to the Federal Housing Finance Board (FHFB) proposed regulation issued on March 15, 2006, on excess capital stock and retained earnings. The proposed rule, if, adopted, would:

1. Limit the amount of excess capital stock an FHLBank may have outstanding to 1% of its total assets;
2. Prohibit the payment of stock dividends;
3. Establish a requirement to hold retained earnings equal to $50 million plus 1% of non-advance assets—the retained earnings minimum (REM); and
4. Restrict dividends to 50% of quarterly income when an FHLBank is not in compliance with REM.

On May 2, 2006, the chairs and vice-chairs of all 12 FHLBanks sent a letter to the FHFB asking that the rule be withdrawn.

It is the position of the IBC that:

1. **Stock dividends should not be prohibited.** Stock dividends provide a tax benefit to member banks that should not be eliminated. If an appropriate limit on the amount of excess stock, then there would be no basis to prohibit stock dividends. No regulatory objective is

achieved by banning stock dividends if a FHLBank controls the amount of excess stock outstanding,.

2. **The limit on excess stock should be higher than 1% of assets.** The IBC believes 1% is too low; a higher limit would provide greater flexibility for the FHLBank to hold liquid assets and maintain higher liquidity, increasing its ability to operate in a safe and sound manner and better serve the fluctuating advance needs of its members.
3. **There should be a reasonable phase-in period to meet the REM.** The proposed rule would limit dividends to 50% of net income immediately if the REM is not met when the regulation is effective. The 50% limitation is too severe and restrictive and could significantly hurt a member's income. It is also inappropriate to impose a dividend restriction the day the rule becomes effective. There should be a 3-year implementation period during which dividend restrictions are not imposed if the FHLBank is making reasonable progress in meeting its REM.
4. **The REM applicable to money market assets should be reduced.** There is no justification for imposing the same retained earnings requirement on money market assets as is required for 30-year, fixed-rate mortgages. We suggest making the REM equal to $50 million plus ½ percent of money market assets and 1% of non-advance, non-money market assets.
5. **Once fully implemented, there should be some flexibility before dividend restrictions are imposed.** The proposed rule would impose the 50% limitation immediately when an FHLBank failes to meet its REM. This will effectively require an FHLBank to hold substantially more than its REM to prevent a violation through normal balance sheet volatility. It would be preferable to impose dividend restrictions only in the event a FHLBank falls below 90% of its REM in a quarter or fails to meet its REM for three consecutive quarters. Because the current REM calculation is very conservative (relatively high level of retained earnings being required), the flexibility allowed before dividend restrictions are imposed would achieve the FHFB's objective while not being as operationally difficult for the FHLBank.
6. **It should be clarified 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. FHLBank members prefer a stable dividend policy, especially when income can be materially impacted in a single quarter by gains and losses related to SFAS 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.

Thank you for considering the views of the Independent Bankers of Colorado

Sincerely,

/s/

Barbara Walker
Executive Director