**First National Bank**
**ALASKA**

May 18, 2006

Federal Housing Finance Board
1625 Eye Street NW
Washington, DC 20006
Attention: Public Comments

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

Dear Finance Board:

Thank you for the opportunity to provide comments regarding the proposed regulatory provisions that would limit the amount of excess stock that a Federal Home Loan Bank (Bank) can have outstanding and that would prescribe a minimum amount of retained earnings for each Bank.

As a member of the Seattle Bank we do not currently see the proposed limits on excess stock currently either favorable or unfavorable to them but do support it for Federal Home Loan Bank system as a whole. In regard to the Seattle Bank it is primarily because they currently pay no dividends, either in stock or in cash, however previously dividends were paid in the form of stock. At such time as the Seattle Bank considers dividends in the future we would object to any dividends except those in the form of cash and only in an amount prudent for their safety and soundness.

The proposed retained earnings requirement will have a significant impact on the Seattle Bank. Given the Seattle Bank is in the process of migrating out of an ill-conceived and poorly managed mortgage purchase program the proposed requirement will undoubtedly cause an extension of the current moratorium against their paying dividends in order to meet the proposed capital requirements. We also believe the proposed retained earnings restriction is far too simplistic. It should instead take into consideration the complexity and risk of each Bank and correlate to, and be calculated against, risk-adjusted assets.

The proposed dividend restrictions will also have a significant impact on the Seattle Bank. Given the Seattle Bank has members which are also members of other Banks the Seattle Bank would be at a disadvantage when attempting to price their advances. In other words, when a member, which has membership in more than one Bank, is evaluating the all-in cost of an advance they would likely borrow from a Bank which pays a dividend so as not to have to sterilize additional funds purchasing a non-earning asset (Seattle Bank stock which pays no dividends) necessary to obtain an advance. In addition to the Seattle Bank's recent change allowing members to further leverage their stock investment this would undoubtedly lead to disparate pricing among members within a Bank. Those with membership at more than one Bank would likely receive lower rates on advances in order for the Seattle Bank to

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attempt to compete with other Banks, which pay a dividend, and will have no bearing or relationship to underlying risks or concentration.

Further, we do not believe allowing a Bank to retain its investments in Bank obligations should be allowed to continue. Allowing a Bank to record those investments as assets (When is one's own debt ever an asset on one's own books?) without at least marking them to market and offsetting capital makes sense only if one is trying to keep an institution afloat when it otherwise shouldn't be. If the Seattle Bank sold their current FHLB securities they would necessarily recognize the associated losses and would not meet their capital requirements.

In summary, most of the proposed changes will put the Seattle Bank at a competitive disadvantage, to other Banks. This is in spite of their currently having over $2 billion of free capital from their members, but, we support the proposed changes as prudent. However, given all of the above, we encourage the Finance Board to expand their review to include the mission of the Federal Home Loan Banks and consider their current necessity as well as the cost of their tax exempt subsidy. We believe, given today's capital markets, the Banks are no longer needed, a plan should be put forth to have them sunset and the tax exempt status of the Banks and their debt should be eliminated.

Also, during this process, the structure of the FHLB system should be altered to reflect the consolidation which has taken place in the financial institutions market and merge the individual Banks together. Twelve Federal Home Loan Banks with twelve separate boards and management etc. is an expensive and out-of-date business model. Put this together with the Banks competing against each other, while one or more of them are significantly impaired, and you have a recipe for disaster. As it is the current structure allows the individual banks to be managed for the benefit of management and that of a few members.

Thank you sincerely for your time and consideration.

Very truly yours,

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cc: Mike Daly, Chairman of the Board of Directors, Federal Home Loan Bank of Seattle
James E. Gilleran, President and Chief Executive Officer, Federal Home Loan Bank of Seattle

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