Central Bank

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June 1, 2006

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

Attention:
Public Comments Federal Housing Finance Board Proposed Rule:
Excess Stock Restrictions and Retained Earnings Requirements
for the Federal Home Loan Banks.
RN Number 3069-AB3O
Docket Number 2006-03

Gentlemen:

Central Bank and Trust Company of Lexington, KY submits the following as our formal comment on the proposed revisions to the Capital Regulations (12 CFR Parts 900, 917, 925, 930, 931 and 934) promulgated by the Federal Housing Finance Board ("the Finance Board") and published in the Federal Register on March 15, 2006.

We wish to thank the Finance Board for giving the members of the Federal Home Loan Bank System (the "FHL Bank System") the opportunity to comment. We recognize the Finance Board's stated purpose in the proposed regulation is to uphold its mission as regulator for the FHL Bank System and to ensure that the Federal Home Loan Banks (the "FHL Banks") "operate in a financially safe and sound manner," "carry out their housing and community development finance mission, and remain adequately capitalized and able to raise funds in the capital markets." However, we believe that the proposed rule will, in reality, undermine the Finance Board's stated purpose and adversely affect our institution, by:

- causing a deterioration in the current strong financial position of the Cincinnati Bank, which is more than likely to result in the Bank losing its AAA rating with Stable Outlook;

- resulting in substantial deterioration in the value of membership in the Bank, which could cause us to request redemption of excess stock at levels well above that which the proposal would mandate;

- would encourage the FHL Banks to take on increased risk, given the proposed "one size fits all" retained earnings formula; and,

- effectively dismantles the provisions of our Finance Board-approved Capital Plan which has been agreed to by members.

- The proposed rule imposes a simple formula for the creation of retained earnings which fails to take into account the specific risk profile of each individual FHL Bank. This formula will result in a significantly higher retained earnings requirement for the Cincinnati Bank than a risk-based analysis would generate, therefore, unnecessarily burdening members' investment in the Bank.

- The proposed rule increases our cost of services from the Federal Home Loan Bank through their reduced liquidity and less flexible access to the capital markets, which will result in higher funding costs for us.

- By reducing the amount of liquidity that the Bank can cost-effectively carry, -- it will reduce our flexibility of access to borrowing-- the proposed rule will likely, albeit unintentionally and indirectly, cause us to carry more liquidity of our own. This will in turn reduce our ability to cost-effectively provide services to our retail customers, decreasing earnings, and ultimately threatening the viability of the community banks like ourselves.

We believe that the simplistic, universal application of the proposed rule will have significant unintended consequences that will compromise the business, public policy mission, and safety and soundness of the Cincinnati Bank. In addition, we believe that the Cincinnati Bank presents such little impairment risk to our capital stock investment as to render application of the proposed rule completely unnecessary.

Finally, the publication of the proposed rule, before any implementation is assured, has already caused us to re-evaluate and, may, in some cases, take unfavorable actions to reduce our business with and investment in the Bank. Respectfully, we strongly call for the Finance Board to withdraw the proposed regulatory rule.

Sincerely,

Luther Deaton, Jr.
Chairman/President/CEO

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