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May 31, 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
RIN Number 3069-AB30
Docket Number 2006-03

Lady and Gentleman:

Please accept and consider these formal comments on the proposed revisions to the Capital Regulations published recently in the Federal Register.

I am CEO and President of Advantage Bank, a member institution of the Federal Home Loan Bank of Cincinnati. In addition, I serve on the board of directors of the FHLB of Cincinnati.

I now go to specific comments on the proposed Capital Regulation.

- I am troubled that the FHFB is compelled to *fix* all 12 Banks with one simple rule (i.e. $50 mm and 1%) versus continuing with the overall system requirement of addressing the issue using a risk-based model as approved (at least in Cincinnati) by the FHFB by a unanimous vote. This new action seems over-reaching and I would also point out that the Cincinnati FHLB exceeds its current capital plan.

- Basel is on the horizon – a *concept* currently in use in the approved Retained Earnings Policy of the FHLB of Cincinnati – as their policy is a robust risk based analysis of adequate capital levels. Yet the FHFB ignores that international trend in its proposed regulation, although risk-based capital standards have been around for decades and the proposed Capital Rule even requires retained earnings be held against the apparent risk of cash. The FHLBanks don't trade dollars for yen; just other dollars, so I am wondersome about this part of the proposal.

- Other significant concerns our bank has would be: a diminished return on investment (reduced dividend to *fix* a FHLB with a AAA rating and an above average risk management effort); creating a taxable event by mandatory redemption of excess stock; redefining *permanent stock* versus the law's definition (GLB) and in effect produce a system with lower capital, lower profit and higher cost advances to its members.

- The overall effect of the proposed regulation would in the long term, shrink the FHLB system and negatively impact small community bank members on a proportionate basis the most, as the system will have less available liquidity and advances at higher costs.

- Lastly, the reduction of members' participation and delivery of Affordable Housing Program funds (non-voluntary – this one a FHLBank has to provide for from earnings) due to FHLB declining profits and sequestering retained earnings versus other permanent capital; is a FHLB mission change effected by the proposed regulation and of lasting negative consequence to housing in the U.S.

I would imagine folks at the FDIC must be wondering what banks will do to replace the lost earnings from curtailed FHLB dividends and reduced margins on balance sheet activities, reduced CRA programs and liquidity caused by this proposed regulation.

I would ask you to withdraw the proposed regulation and maintain the FHLBanks current capital plans.

Sincerely,

Richard C. Baylor
CEO & President

RCB/skc