

May 24, 2006

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

ATTENTION: Public Comments

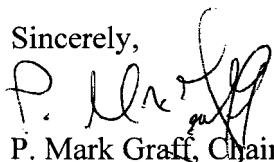
Re: Federal Housing Finance Board Proposed Rule:
Excess Stock Restrictions and Retained Earnings
Requirement for the Federal Home Loan Bank.
RIN Number 3069-AB30
Docket Number 2006-03

On March 15, 2006 you issued a proposed regulation on excess capital and retained earnings at FHLBanks. I appreciate your efforts to receive comments on this proposed regulation and since our bank (McCook National Bank) is a member of the FHLBank Topeka, I would add the following comments.

- I do not believe that it is appropriate to prohibit stock dividends in the proposed regulation. Stock dividends provide a much needed tax benefit to participating members and I see no regulatory benefit that would be derived by eliminating such dividends since a FHLBank controls the amount of excess stock it maintains.
- With the FHLBank becoming a more valuable source of funding for our, and most other community banks, I am concerned with the limit on excess stock of 1% of assets. In practice I believe this would restrict the FHLBank's ability to hold liquid assets which in turn would restrict its ability to serve our rapidly changing funding needs. I would suggest raising the limit above 1% to provide the FHLBank with greater flexibility to meet its member's fluctuating funding needs.
- Although I agree with the need to establish a retained earning minimum, I would suggest that the banks be granted a reasonable phase-in period to meet the REM requirements before limiting the dividends to 50% of net income. It would seem to me that an effective plan by the FHLBank to meet that REM in the future by the reasonable phase-in period would provide effective management of the bank's dividend policy.
- And finally I have some concern with the quarterly limitations imposed on dividends even when the FHLBank meets its REM - and I stress the final part of this "*when the FHLBank meets its REM*". Since net income can fluctuate from quarter to quarter, most companies try to manage their dividend policy to anticipate these fluctuations and provide their stockholders with a steady stream of dividends given a normal net income environment. I believe that the restrictions in this area in the proposal would limit the FHLBank's ability to provide such a consistent dividend stream when net earnings in the intermediate timeframe can be reasonably anticipated.

Thank you so much for your consideration of my comments concerning the proposed regulation.

Sincerely,


P. Mark Graff, Chairman