



May 23, 2006

The Honorable Ronald A. Rosenfeld, Chairman
Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006

Re: Proposed Rule: *Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks* -- 71 Fed. Reg. 50, 13306 (March 15, 2006)

Dear Chairman Rosenfeld:

In March, 2006, the Federal Housing Finance Board issued a proposed rule that would change the capital structure of the Federal Home Loan Banks by imposing limits on the amount of excess stock that a Federal Home Loan Bank can have outstanding and by prescribing a minimum retained earnings threshold. Dividends by the Federal Home Loan Banks would be substantially reduced under the proposal. The ability to pay meaningful dividends provides a competitive component for banks and thrifts to utilize FHLB advances as a funding source. If dividends are substantially restricted, banks and thrifts will choose other funding alternatives, a measure which may threaten the entire FHLB system.

I urge you and the other members of the Board to withdraw or substantially amend the proposed rule. If the Board believes that a capital restructuring plan is necessary, then please consider more flexible approaches that minimize the disruptive effect upon member institutions of the Federal Home Loan Banks. I am gravely concerned that dividend payments by the Federal Home Loan Banks would be drastically reduced under the proposal and have unintended consequences for our thrift industry.

Thank you for the opportunity to comment.

Very truly yours,

CITIZENS SOUTH BANK

Kim S. Price
President and Chief Executive Officer

cc: Raymond Christman, President and CEO, Federal Home Loan Bank-Atlanta
North Carolina Bankers Association