Michael Brooks
Vice President
Hocking Valley Bank
7 West Stimson Avenue
Athens, OH 45701-9998

May 22, 2006

Ronald A. Rosenfeld
Chairman
1625 Eye Street NW
Washington, DC 20006

Dear Ronald Rosenfeld:

Our Financial Institution a member of the Federal Home Loan Bank of Cincinnati and the Ohio Bankers League. Our institution relies on the Cincinnati Bank for services and also for a reasonable return on the investment we maintain in Class B stock. We are deeply concerned that the proposed rule is at best unnecessary, and potentially very damaging to the Cincinnati Bank, its mission and our ability to serve our customers. For the reasons which we describe in greater detail below, we respectfully urge the Federal Housing Finance Board (FHFB) to withdraw the proposed rule for further consideration.

The proposed rule can be reduced to four main requirements. The proposed will: 1) Limit the amount of stock the Federal Home Loan Banks may carry, in spite of the fact that it is considered permanent capital under federal law ; 2) Prescribe a minimum amount of retained earnings, and doing so in a way that discriminates against and discourages advance borrowings and the successful mortgage purchase programs of the Cincinnati Bank; 3) Limit the payment of dividends; and 4) Preclude the payment of stock dividends, even though Federal law delegates that decision to the local banks. These requirements will be applied in a rigid, one-size-fits-all format, irrespective of the important differences among the various Home Loan Banks. When all four requirements are read together however, it is the inescapable conclusion that the FHFB has a goal of shrinking all of the FHL Banks and programs, including the Bank in Cincinnati.

The Proposed Rule Will Eliminate the Cincinnati Bank's Voluntary Housing Programs and Greatly Diminish other Mandatory Housing Programs Like all other Home Loan Banks, the Cincinnati bank has a strong commitment to affordable housing programs. The successful Affordable Housing Program, which has helped nearly 35,000 households in the Cincinnati District is funded through a 10 percent set aside of net earnings. This pool of funding will be reduced as profits are reduced. Given the uncertainty over future retained earnings requirements and mandatory capital reductions, the Cincinnati board of directors temporarily suspended two voluntary housing programs, the New Neighbors and American Dream Homeownership Challenge. The New Neighbors fund for hurricane victims and the

American Dream Homeownership Challenge for minority and special-needs homebuyers have been used successfully by Ohio banks to help our communities. If the Cincinnati Bank is forced to shrink capital to comply with the proposed rule, resulting in declining profits, it will naturally follow that less funding will be available for these successful housing programs.

For the Cincinnati Bank, New Rules Enacted in the Name of Safety & Soundness are Simply Not Necessary, and Could Even be Harmful The Cincinnati Bank is a conservative, well managed institution that maintains the highest possible rating with both Moody's and Standard & Poor's. Our FHL Bank is well-capitalized, successfully operating under a capital plan the FHFB approved in 2002 . We cannot speak for the other FHL Banks, but the new rules you propose in the name of safety and soundness are unnecessary for our Federal Home Loan Bank. Worse, we believe if the proposed rule is enacted in its current form, the rating of the Cincinnati FHL Bank will be lowered.

The rating of the Cincinnati Bank will likely be lowered for three reasons. First, because excess capital must be redeemed under your proposal, the Cincinnati FHLB will have less total capital under the proposed rule. It is not relevant to the markets or the rating agencies that the FHL Bank's capital account may have a higher percentage of retained earnings. Second, less capital will result in reduced services to my institution. For example, because the rule requires additional capital for non-advance assets, the FHLB may have to terminate or reduce mortgage purchase programs. Additionally, the Cincinnati bank may not have the liquidity or flexibility to be able to continue offering same day advances. Thus, if services are reduced and dividends are slashed and made taxable as a result of the proposed rule, many of the shareholders will inevitably choose to redeem additional stock, again lowering overall capital. While this cannot be characterized as a run on the Bank's capital account, we find it ironic that preventing accelerated redemptions in times of stress is one of the stated reasons justifying the proposed rule Yet an accelerated redemption is called for by redeeming Excess Stock within 60 days of enactment of this proposed regulation.

Finally, whether it is a policy goal or not, this rule will reduce liquidity. Contrary to the Basel capital debate for banks and thrifts, the Federal Home Loan Banks will be required to hold the same capital to support cash and readily marketable securities as for other mission-related assets. Given the scarcity of capital, it will simply be too expensive to maintain more than the absolute minimum amount of liquidity.

The Proposed Rule will Trigger Additional Taxes for the Federal Home Loan Bank Members The proposed rule will undermine the careful tax planning of all of the Federal Home Loan Banks. First, and most directly our bank believes it is in the best interest of both the Cincinnati FHL Bank and the shareholders to issue stock dividends whenever feasible. This policy not only permits the Cincinnati FHL Bank to retain the capital to support our housing and advance programs, but also permits FHLB shareholders to defer any taxation, as compared to regular dividends, which are immediately taxable. Second, if adopted in its current form the rule will require the Cincinnati FHL Bank to redeem excess capital as defined in the rule for cash within 60 days. This forced redemption will also force banks and thrifts to realize taxable gains and will have an adverse tax impact on my bank.

The tragedy of this is that it will put banks and thrifts yet again at a competitive disadvantage to credit unions. If dividends are required to be issued in cash, credit union members do not have to pay taxes on the gains, but banks and thrifts will. This will be yet another blow to the community banks that are the primary constituents of the Federal Home Loan Banks.

For these reasons, as a shareholder of the Cincinnati Bank, we respectfully request that you withdraw the Proposed Rule.

Sincerely,

Michael D. Brooks
740 592-6805
Vice President
Hocking Valley Bank