



# LAKE-OSCEOLA STATE BANK

*Customer Care - Community Support*

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July 3, 2006

Federal Housing Finance Board  
1625 Eye Street, NW  
Washington, DC 20006-4001

Re: Proposal for changes in capital requirements for Federal Home Loan Banks (FHLBs)

To Whom It May Concern:

I would like to comment on the above pending proposal. If passed, this regulation will have an adverse affect to our institution and community. This proposal will change the formula that the FHLBs use to calculate their minimum retained earnings. If approved and the proposed dividend limitation is imposed, it will have a negative affect on our earnings and potentially increase the overall costs of our future FHLB borrowings. This ultimately could lead us to seek other borrowing alternatives. If we and other member banks seek alternatives and there is a reduction in membership, it could lead to more risk for the FHLBs and its remaining members. It would also have a negative impact on the income of the FHLBs and possibly reduce the funds available for the ever popular Affordable Housing Program.

This proposal appears to creates unintended consequences. Rather than use the proposal's one-size fits all formula, the Finance Board should adopt a risk based approach tying the level of retained earnings to the risk on the balance sheet. This would also be more in line with the other federal banking regulators and the Basel capital studies. Given this, it seems best to withdraw the current proposal and consider a future risk based capital rule.

Sincerely,

Robert M. Fisher  
President

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