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Alliance Bank

June 7, 2006

Federal Housing Finance Board

Re: Excess Stock and Retained Earnings Federal Housing Finance Board Regulatory
Proposal for the FHLBanks

Dear Federal Housing Finance Board:

This letter is voice my bank's opposition to the proposed regulation to the capital structure of FHLBs. Alliance Bank is a member of the Federal Home Loan Bank of Indianapolis, a well run institution that provides valuable services to us. We see this regulation as having significant negative impact to Community Banks especially. The proposal ignores the basic attributes of current permanent capital structure, and it is an arbitrary, one-size fits all approach, which is not risk-weighted. It will hurt our business of providing low-cost funding to our member financial institutions for housing, community development, and liquidity.

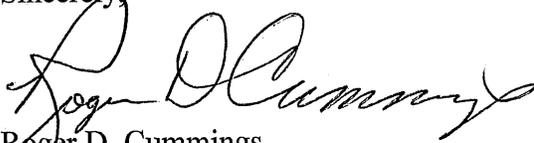
The following list some of the

- The proposal needlessly places the FHLBanks with mortgage purchase programs at a disadvantage. These programs are mission consistent and have fostered housing finance in our district by giving our members a competitive secondary market alternative. The regulator should focus on ways to allow the FHLBanks to reduce and manage their mortgage purchase portfolios through securitization.
- The restriction on the payment of stock dividends is contrary to statute that expressly authorizes the payment of stock dividends. Elimination of stock dividends also ignores the fact that cash dividends automatically reduce the capitalization of an FHLBank, while stock dividends maintain capital levels. Capitalization is a key consideration by the independent ratings agencies when evaluating an organization's on-going credit rating.
- The proposal creates unintended consequences. Holding more retained earnings than needed from a risk perspective deleverages the FHLBank,

reduces shareholder returns, and ironically may cause member withdrawal. 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 is more in line with the other federal banking regulators and the Basel capital studies. Given this, it would be best to withdraw the current proposal and consider a future risk-based capital rulemaking.

We are requesting that the proposal be withdrawn for the above reasons. Community Banks face numerous challenges from all fronts and reducing the ability of the FHLB system to provide needed services will adversely affect our ability to serve our communities.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger D. Cummings". The signature is written in a cursive style with a large initial "R" and "C".

Roger D. Cummings
President