June 21, 2006

The Honorable Ronald A. Rosenfeld, Chairman
Federal Housing Finance Board
1625 Eye Street, N.W.
Suite 4000
Washington, DC 20006

Dear Chairman Rosenfeld:

From June 2004 through December 2005, I served as a Board member for the Federal Home Loan Bank of Atlanta. I was appointed by the Board to complete a term vacated by a North Carolina industry director who was no longer eligible to serve. During my tenure on the Board, I chaired the Finance Committee and also served on numerous other committees. My educational background and years of experience in the Funds Management Group at BB&T enabled me to make a contribution to the Board despite my relatively short tenure.

This background information perhaps helps explain my reason for writing you directly regarding the new retained earnings requirements being proposed and currently out for comment. My thoughts are not intended to reside in the public domain and therefore, I am writing to you personally and not on behalf of my employer BB&T. I feel certain that someone from BB&T will also formally respond.

First, let me commend you for addressing what I believe to be an extremely important issue at hand. As you well know, there are significant variations in capital plans and retained earnings levels at the twelve Federal Home Loan Banks (FHLBs). In my capacity as chairperson of the Finance Committee, I frequently encouraged the Board to continue to build retained earnings. My concern was that through the SEC review process, FAS 133 documentation issues would in all likelihood surface at one of the twelve banks. Regardless of whether or not the derivative was an effective hedge, improper documentation or later interpretations of FAS 133 requirements could result in the need to reclassify these hedges into a trading account and increase the volatility and possibility of a loss in a given quarter. Inadequate retained earnings to sustain a reclassification could result in a book value of a bank's shares below par value as was noted in some of the circulated documents soliciting comments. I believe the FHLBs have historically focused more on economic earnings and less on GAAP earnings. I will say that I think this is changing quickly.

The event triggering a break in the par value would also trigger a resounding and quick response from FHLB members of all sizes. Questions would surface about member banks "impaired assets" and write-down possibilities. Member banks would quickly move to the growing availability of other sources. In fact, tight credit spreads have already made FHLB funding less attractive for many members. This would exacerbate the issue creating a quick spiral downward and threaten the viability of the system. I know you have already realized this.

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I do, however, have some personal concerns with the new retained earnings proposal. My logic is as follows. If the Federal Housing Finance Board (FHFB) prevents a FHLB from paying a dividend, I fear most members would avoid using the system. Large banks would probably respond the quickest but the response would surely move down to the larger community banks given the tight credit spread environment and the growing availability of funding sources. The liquidation of current advances or the lack of marginal new growth would put additional earnings pressure on the Banks at a time when enhanced risk management processes are required as part of SEC registration and Sarbanes Oxley. Costs are soaring. This would put further pressure on the ability to pay a dividend and would cause more members to find alternative sources. In my opinion, this proposal would also create a downward spiral that makes the FHLB system less viable and relevant over the long term. Ultimately, affordable housing programs and the mortgage markets suffer. These are true hallmarks and the very mission of the system.

A more risk-based approach and a longer phase-in period would be appropriate, as well as a much higher allowable limit in which to pay dividends should a bank fall below the targeted retained earnings level. My recommendation is that you allow the FHLBs to keep the dividend rate at current borrowing levels if at all possible, so as not to increase the effective cost of borrowing. Interestingly enough, I recently received a question from a Fed regulator on the retained earnings proposal, and I shared many of my thoughts contained in this letter.

I realize this is a lengthy letter and it truly departs from my style of being brief and to the point. I also realize it does not offer you many ideas to change your policy recommendation. I would be happy to discuss this with you in more detail. Regardless, I would recommend the FHFB have discussions with individuals knowledgeable about both the FHLB system and member institutions' usage of the system. I see value in the FHLB system and very much want to see it preserved.

Thank you in advance for your serious consideration of these issues.

Sincerely,

Donna C. Goodrich

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