



February 5, 2003

Mr. John T. Korsmo
Chair
Federal Housing Finance Board
1777 F Street, NW
Washington, DC 20006

Dear John:

At its meeting of January 16, 2003, the FHLBank of Cincinnati Board of Directors (Board) reviewed and discussed the issue of multi-District membership for the Federal Home Loan Bank System. This issue was also thoroughly examined by the Board last year at its annual planning conference. After the discussion a year ago, the Board agreed not to comment on the issue since no consensus emerged from the meeting. It is fair to say similar discussions occurred this past month with viewpoints ranging from marginal support for multi-District membership to firm opposition. While the Board greatly appreciates the opportunity to comment on this very important topic, a number of issues prevent our Board from adopting a final position at this time.

Of primary concern to our Board is preservation of the successful, unique cooperative structure of the 12 regional Banks. In the absence of analyses, the impact of multi-District membership upon the regional nature of the System and its ability to serve the needs of its member institutions is unknown. Our Board recognizes the fact that consolidation is occurring within the banking system and is likely to continue in the years ahead. Powerful market forces that are changing the entire financial landscape cannot be ignored or dismissed. The passage of the Gramm-Leach-Bliley Act is a testament to the changes. Continued merger activity across the nation could bring about financial pressures on individual Banks who are net losers of member institutions under the established set of rules. In effect, consolidation of banking charters could in the long run lead to some consolidation within the FHLBank System. In our meeting, it was argued that multi-District membership could actually protect the regional nature of the System and allow it to support the current 12 Bank structure in the short- and intermediate-term. Market forces will not be stopped by the institutional structure of the FHLBank System.

On the other hand, it was noted that the System was able to survive the massive consolidation of the thrift industry that accelerated in the late 1980s and early 1990s prior to the ability of commercial banks and credit unions to join the System. From 1988-92, the System withstood an overall decline of advances that approached 50 percent, with larger declines suffered by individual Banks, including the FHLBank of Cincinnati. This substantial drop in business activity was the direct result of membership losses. Many of the Banks, including FHLB Cincinnati, dealt with this difficult environment by reducing the scale of operation, operating budgets, and levels of employment.

Mr. John T. Korsmo

Page Two

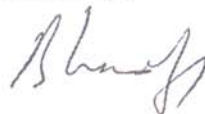
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The Board also discussed the potential impact of multi-District membership on large and small institutions as well as the effect on affordable housing funding. There is concern that allowing multi-District membership would tend to favor large members over small members which introduces the element of fairness in the operation of cooperative institutions. Community banking institutions do represent the vast majority of the membership of the System. Any ruling that would be viewed as unfair by this component of the System would likely lead to resentment, public infighting, and a critical review of the very mission and congressional intent behind establishing the FHLBank System. The issue of affordable housing funding has been addressed, and we believe largely resolved by our Board through eliminating geographic restrictions on the FHLB Cincinnati's Affordable Housing Program (AHP). If similar restrictions on the use of AHP funds were eliminated nationwide, much of the concern expressed by proponents of multi-District membership would be addressed.

The Board spent considerable time discussing the proposal from the San Francisco and New York FHLBanks regarding advance participations. This proposal could represent an acceptable solution to the problem. The Cincinnati Bank has been involved in four separate participations going back to the mid-1980s, two of which were of significant size. These transactions can work if the rules of the game are spelled out clearly. If the Finance Board chooses this technique as a solution, the Board strongly recommends that definitive rules be established by the Finance Board regarding terms and conditions of such transactions. Without a consistent set of conditions, including those dealing with such things as participation fees, our Board seriously doubts whether this tool will work on a consistent basis.

The one area of unanimous agreement regarding the subject of multi-District membership was the fact that more time and study needs to be devoted to this issue prior to any final decisions. Our Board will discuss this issue in even greater detail at our upcoming Directors' Planning Conference. Given the fact that the System is just starting to implement a new and heterogeneous capital structure across the Banks, it may behoove the System to first allow this process to be completed. During this time, the Banks can undertake a thorough study of the economic and financial impact of multi-District membership. No less than the future of a 70-year System which has worked very effectively in its current form is at stake. We welcome the opportunity to continue to work and communicate with the Finance Board as the System deals with this extremely important ruling affecting its ability to fulfill its mission.

Sincerely,



Buckner Woodford
Vice Chair

BW:clg

c: F. Leichter
A. Mendelowitz
T. O'Neill
J. Weicher