

FEDERAL HOUSING FINANCE BOARD

In the Matter of:)
)
BOARD MEETING)

Wednesday,
March 22, 2000

Room 2222
Rayburn House Office Bldg.
2401 Rayburn HOB
Washington, D.C. 20515

The parties met, pursuant to notice of the Chairman at
2:30 p.m.

PRESENT

Bruce A. Morrison, Chairman
J. Timothy O'Neill, Director
William C. Apgar, Director
William W. Ginsberg
Eric Raudenbush
Deborah Silberman
Joseph McKenzie
Neil Crowley
James Bothwell
Julie Paller

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P R O C E E D I N G S

(2:31 p.m.)

CHAIRMAN MORRISON: The meeting will come to order.

Because of the responsibilities of two of the directors to be present at a Congressional hearing, the time and place of this meeting were relocated from the Finance Board to this room on Capitol Hill. And we will publish notice of this change as expeditiously as possible.

Mr. Apgar has competing scheduling items, so we are going to move very rapidly and focus on only those things that need to be said and done.

Item number one is the final rule on duties and responsibilities of the Federal Home Loan Bank Boards of Directors.

CHAIRMAN MORRISON: If you would just quickly summarize what is proposed to be acted on here?

MR. GINSBERG: If I may, Mr. Chairman, I will ask Jim Bothwell to do that.

MR. BOTHWELL: Eric Raudenbush.

CHAIRMAN MORRISON: Okay, we'll take it to chance.

MR. RAUDENBUSH: I'm going to toss most of the

1 script. This is the final rule. It's actually the powers and
2 responsibilities of Bank Boards of Directors and Senior
3 Management.

4 Generally, as you read the proposed rule that was
5 published for a 30-day comment period, the rule addresses, as
6 sets forth, standards for boards of directors and senior
7 management of the Banks in the areas of risk management,
8 internal control, external and internal audit supervision,
9 budget preparation, declaration of dividends, drafting of and
10 amendment of bylaws and strategic planning.

11 We received 16 comment letters, six of which expressed
12 general support for the rule as a whole. None of them opposed
13 the rule as a whole, though all of them made recommendations for
14 modifications.

15 All of the changes in the rule come under the category
16 of clarifications made in response to comment letters and/or
17 reshuffling of the rule just for clarity, and the most notable
18 of those is the moving of the mission provision that was
19 formerly housed in the strategic planning section of Part 917
20 into a separate Part 940.

21 And I will leave it at that and ask for any questions.

22 CHAIRMAN MORRISON: Okay. I know Mr. O'Neill wishes to
23 offer an amendment. And since we don't have much time, I will
24 yield the floor to Mr. O'Neill, to offer his amendment.

1 MR. O'NEILL: My amendment would simply strike Part
2 940, which is the mission of the Banks. I guess I have two
3 reasons for that.

4 Number one, in our next Board meeting in three weeks,
5 we will talk about the mission of the Banks and this mission is
6 the same as that mission, so I don't think we need to talk about
7 it now. We will have that debate in three weeks.

8 But I guess more substantively than that, the question
9 is whether it should be Congress or the Finance Board that
10 should set the mission, and my view is that it's the Congress
11 that sets the mission and it's the Finance Board that enforces
12 the mission that Congress gives us.

13 So to me, when Congress has a mission and the 12
14 Federal Home Loan Banks have a mission, for them as well the
15 Finance Board to have a mission is not only not helpful, it
16 simply confuses the issue more than enlightens it.

17 And so for that reason my amendment would strike Part 940.

18 CHAIRMAN MORRISON: Part 940.

19 MR. O'NEILL: Part 940. I guess it's on page 17 of the
20 regulation. We just strike that from this provision.

21 CHAIRMAN MORRISON: Mr. Apgar.

22 MR. APGAR: Well, with respect to the broader discussion, I
23 know that there were some comments on the rule. I think the

1 staff has done a good job of reflecting those, even though they
2 were minor, and bringing together a response that I think we can
3 support.

4 I don't share Director O'Neill's concern about the
5 mission. I think we just came from a hearing which was all
6 about balancing mission and safety and soundness issues, the
7 lack of clarity on Federal Home Loan Bank mission, I think,
8 has been of concern to me, especially in my role at HUD, who
9 is somewhat of a keeper of concerns about policy and mission
10 issues within the administration.

11 And so I think it's ample time that we go ahead and
12 continue to clarify mission issues and I think this is the time
13 and this is the place and we ought to keep the rule as written.

14 CHAIRMAN MORRISON: Mr. O'Neill, I just have a
15 question
16 or one or two questions.

17 One is, do you believe that in this Statement of
18 Mission there is something included that is beyond what
19 Congress has authorized?

20 MR. O'NEILL: I think that it's not so much any of the
21 words as it is whether we, the Finance Board, should have a
22 mission definition.

23 CHAIRMAN MORRISON: So who should have a mission

1 definition?

2 MR. O'NEILL: The Congress.

3 CHAIRMAN MORRISON: And the Congress's words are not
4 in need of any interpretation or any clarification?

5 MR. O'NEILL: Obviously, it's up to us to enforce
6 what Congress gives us, and we have a great crew of examiners
7 who at least once a year go to each of the Banks. And it should
8 be to those examiners, given what Congress has given us, to say
9 this Bank does a good job on the mission or does not do a good
10 job on the mission, but that's for the examiners based on what
11 Congress gives us.

12 CHAIRMAN MORRISON: So the examiners should interpret
13 the statute instead of the Board. Is that your argument?

14 MR. O'NEILL: Obviously, any things that are in doubt
15 can come to us. But for example, to this date, the examiners
16 examine the Banks for their compliance with the Affordable
17 Housing Program and the Community Investment Program, and now
18 the CICA Program. So they are right now, given the guidance
19 that we give them, they are examining for mission, and I think
20 that's exactly how it should work, and I think it should go on
21 just as it has gone to date.

22 CHAIRMAN MORRISON: And we have a regulation on AHP and

1 a regulation on CIP and a regulation on CICA. I find this
2 argument truly amazing having sat on this Board and listened to
3 members of this Board argue that examiners shouldn't be doing A
4 or B or C because this Board was plenary and should make these
5 decisions.

6 I mean, I am truly amazed at having sat through a
7 Congressional hearing where people are asking about mission
8 regulation that we would abdicate our responsibility to say what
9 it is we think Congress did. That to me would be truly amazing.

10 I understand the gentleman's position. I just couldn't
11 possible agree with it.

12 The vote occurs on the amendment. All in favor of the
13 amendment, please say aye.

14 MR. O'NEILL: Yes.

15 CHAIRMAN MORRISON: Opposed, no.

16 CHAIRMAN MORRISON AND MR. APGAR: No.

17 CHAIRMAN MORRISON: The amendment is not agreed to.

18 CHAIRMAN MORRISON: The vote occurs on the final rule.
19 All in favor, please say aye.

20 (Chorus of ayes.)

21 CHAIRMAN MORRISON: The rule is adopted.

22 Let us see whether we can do the rest of this. I
23 promised Bill 15 minutes. I think we are five in.

1 MR. APGAR: Okay.

2 MS. SILBERMAN: Did you say for technical changes?

3 CHAIRMAN MORRISON: Yes, I ask unanimous consent that
4 the staff be authorized to make confirming and technical
5 amendments as required for publication.

6 Without objection, so ordered.

7 MS. SILBERMAN: Thank you.

8 CHAIRMAN MORRISON: Item number two: final rule on the
9 REFCORP obligation.

10 MR. GINSBERG: Mr. McKenzie will make this
11 presentation, Mr. Chairman.

12 MR. MCKENZIE: Good afternoon.

13 CHAIRMAN MORRISON: Good afternoon.

14 MR. MCKENZIE: Section 607 of the Gramm-Leach-Bliley
15 Act changed the Federal Home Loan Bank's obligation to REFCORP
16 from a flat \$300 million a year to 20 percent of net earnings.

17 As a result of the change, the Federal Home Loan Banks
18 may pay more or less than the original 300 million per year.

19 The purpose of the final rule is to adjust the final
20 maturity date so that Federal Home Loan Banks pay the equivalent
21 of the original obligation at present value of \$300 million per
22 year.

23 The rule incorporates this by a process where the

1 Federal Home Loan Banks would be simulating the purchase of zero
2 coupon Treasury securities to diffuse the obligations starting
3 from the distant out and moving it in.

4 The Board received five comments on this rule; four
5 from Federal Home Loan Banks, who generally wanted a higher
6 interest rate. Staff believes that that comment is not
7 appropriate because the residual obligation for the REFCORP is
8 the Treasury. The Treasury pays approximately something greater
9 than \$2 billion per year on the REFCORP bonds. The Federal Home
10 Loan Banks pay about \$400 million. Since the Treasury is a
11 residual obligator, we should be using Treasury rates.

12 The one trade association requested that the results of
13 the calculation be publicized, and we can handle that in the
14 quarterly and annual financial reports.

15 I would note that the Finance Board by statute is
16 required to consult with Treasury before promulgating this rule.
17 We have provided drafts to the Secretary of the Treasury. The
18 staff has had discussions with the Treasury, who have been
19 generally supportive of this, and the Treasury Department has
20 sent to us a draft comment letter, although the final comment
21 letter is still being cleared within the Treasury Department.
22 The comment letter from the Treasury Department made a few
23 clarifying suggestions, but was generally supportive.

1 The final rule is basically identical to the proposed
2 rule with several technical changes.

3 CHAIRMAN MORRISON: And the reason for expediting this in spite
4 of the fact that we haven't gotten the final document from
5 Treasury, although we have no reason to believe that the final
6 document will differ in any material way from the draft.

7 MR. MCKENZIE: None whatsoever.

8 CHAIRMAN MORRISON: Is that April 15th is the first
9 date on which this has to be in effect.

10 MR. MCKENZIE: That's correct.

11 CHAIRMAN MORRISON: And we have to have sufficient
12 notice for the calculations to occur.

13 So do any of my colleagues have any comments or
14 questions about this rule?

15 MR. APGAR: No.

16 CHAIRMAN MORRISON: Hearing none, the vote occurs on
17 adopting the final rule in favor, please say aye.

18 (Chorus of ayes.)

19 CHAIRMAN MORRISON: Opposed, no.

20 (No response.)

21 CHAIRMAN MORRISON: The ayes have it, and the final
22 rule is adopted.

23 I ask unanimous consent that the staff be authorized

1 to make technical and conforming changes.

2 Without objection, so ordered.

3 Item number three, proposed rule relating to advances
4 and collateral.

5 MS. PALLER: Good morning.

6 CHAIRMAN MORRISON: It's been a long morning.

7 MS. PALLER: Good evening.

8 The staff is presenting for your consideration a
9 proposed rule that would amend the Finance Board's advances
10 regulation to implement certain provisions of the Federal
11 Home Loan Bank Modernization Act signed into law on November
12 12, 1999.

13 The Modernization Act amended several advance-
14 related provisions of the Bank Act. These include: the
15 establishment of Community Financial Institutions, or CFIs, as a
16 new category of System member; expanding the purposes for which
17 Federal Home Loan Banks may make long-term advances to CFIs; and
18 allowing Banks to accept from CFIs new categories of collateral
19 to secure advances.

20 The Modernization Act also removed for all members the
21 limit on other real estate-related collateral, currently set at
22 30 percent of member capital, and removed all of the provisions

1 related to members that are not Qualified Thrift Lenders, or
2 QTLs. The proposed rule implements these provisions of the act.

3 The Modernization Act uses different terms to describe
4 the purposes for which the Banks may make long-term advances to
5 CFIs, and the new types of collateral the Banks may accept from
6 CFIs. The act permits the Banks to make long-term advances to
7 CFIs for the purpose of providing funds for small businesses,
8 small farms and small agri-businesses, and expands the types of
9 collateral the Banks may accept from CFIs to include secured
10 loans for small businesses, agriculture, or securities
11 representing a whole interest in such loans.

12 The proposed rule includes definitions of all of the
13 aforementioned terms which I can discuss if any of you would
14 like.

15 But it requires that prior to accepting new categories
16 of collateral from CFIs or significantly higher volumes of other
17 real estate related collateral from any member for the first
18 time, that a Bank must file a notice with the Finance Board
19 containing information that demonstrates that the Bank has the
20 capacity to value, discount and manage the risks associated with
21 the collateral in question.

22 In evaluating a Bank's notice of new collateral

1 activities, it's recommended that the Finance Board encourage
2 conservative discounting of new collateral until the Bank gains
3 experience in valuing such collateral.

4 In addition, the staff is recommending that the
5 Finance Board approve certain other changes to the advances
6 regulation that are intended to address in regulation issues
7 that have arisen over the last several years that were
8 addressed either through the regulatory interpretation process
9 or through other measures.

10 These deal with accepting collateral from affiliates of
11 members, advance pricing, the definition of cash equivalents and
12 a new requirement for a member product's policy that would
13 combine the current requirements for an advances policy that
14 is located in the current advances regulation, a standby letter
15 of credit policy that's in the current letter of credit
16 regulation, and would also address other products offered to
17 members such as acquired mortgage assets.

18 Finally, included in the proposal are corresponding
19 changes to the Finance Board's regulations at Part 917, the
20 Powers and Responsibilities of Bank Boards of Directors and
21 Senior Management; Part 926, Federal Home Loan Bank associates,
22 which are currently referred to as Nonmember Mortgagee; Part
23 952, Community Investment Cash Advance Programs; and Part 961;

1 Standby Letters of Credit; and the addition of a new Part 980,
2 to cover New Business Activities.

3 I would be happy to answer any questions.

4 CHAIRMAN MORRISON: Okay. I will offer the new red-
5 line version that made a series of highly technical and not very
6 substantive changes, but the language is different, offer that
7 as a substitute. It's been circulated. Are there any comments
8 or questions on this proposed rule?

9 MR. APGAR: I just wanted to ask about your thinking about
10 how you set the 25 percent threshold for other real estate-
11 related collateral before you moved into the New Business
12 Activities designation. It sounds like a nice round number that
13 may have not have been scientifically derived.

14 MS. PALLER: I don't think it was.

15 MS. SILBERMAN: Interesting observation.

16 MS. PALLER: Yes, and I think we intend to ask in the
17 preamble for a comment on what the appropriate threshold would
18 be since it came about as you suggested.

19 MR. APGAR: Okay.

20 CHAIRMAN MORRISON: Any other questions or comments?

21 MR. O'NEILL: I just wondered, as far as the preamble,
22 since we just got the preamble.

23 CHAIRMAN MORRISON: Right. I would propose that we

1 adopt the rule and that we subject the preamble to review by
2 members of the Board and when it's signed off on, it will be
3 published. If there are any substantive disagreements, then we
4 will put it to a vote, but I don't expect that that will occur.
5 So we will do it as expeditiously as possible because we would
6 like to get this rule out as expeditiously as possible so that
7 the Banks can begin to plan for this expanded authority for
8 their members.

9 MR. O'NEILL: That's fine.

10 CHAIRMAN MORRISON: Then the vote occurs on the substitute.
11 All in favor, please say aye.

12 (Chorus of ayes.)

13 CHAIRMAN MORRISON: All opposed?

14 (No response.)

15 CHAIRMAN MORRISON: The ayes have it, and the proposed
16 rule is adopted.

17 I ask unanimous consent that the staff may make
18 technical and confirming changes subject to the review of the
19 members of the Board prior to publication.

20 Without objection, so ordered.

21 The meetings is adjourned. I thank my colleagues for
22 their flexibility. I thank the audience for its
23 transportability.

1 (Whereupon, at 2:51 p.m., the meeting in the above-
2 entitled matter was adjourned.)

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REPORTER'S CERTIFICATE

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3 DOCKET NO.: N/A

4 CASE TITLE: Board Meeting

1 HEARING DATE: March 22, 2000

2 LOCATION: Washington, DC

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4 I hereby certify that the proceedings and evidence are
5 contained fully and accurately on the tapes and notes
6 reported by me at the hearing in the above case before the

7

8

9 Date: March 22, 2000

10

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12 June Smith

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