FEDERAL HOUSING FINANCE BOARD

OPEN BOARD MEETING

10:03 a.m.

Wednesday, April 10, 2002

Board Room
1777 F Street, N.W.
Washington, D.C.

MILLER REPORTING CO., INC.
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MEMBERS PRESENT:

John T. Korsmo, Chairman

J. Timothy O'Neill

Franz S. Leichter

John C. Weicher

Allan I. Mendelowitz

PARTICIPATING STAFF:

Elaine L. Baker

James L. Bothwell

Arnold Intrater

Charles McLean

Scott L. Smith

Patricia Sweeney

P R O C E E D I N G S

CHAIRMAN KORSMO: I call this meeting to order. Good morning, everybody. Thank you all for being here.

Today the Federal Housing Finance Board will consider the capital plan for the Federal Home Loan Bank of Atlanta as required by Title VI of the Gramm-Leach-Bliley Act of 1999. To Ray Christman and everyone from the Atlanta Bank who is either here with us today or watching via the internet, let me extend my personal thanks for your very hard work on making this happen. I appreciate the cooperative attitude you have shown, and especially you willingness to move consideration of your capital plan to today's board meeting.

As everyone knows, we have set ourselves a rigorous schedule, the Finance Board, for approving the 12 capital plans. And the diligent efforts of the Atlanta Bank have made that process much easier. Again, thank you to Ray and our staff and everyone involved.

Board approval of the plan before us today will establish a permanent capital structure for the Federal Home Loan Bank of Atlanta. This plan addresses the fundamental issues of safety and soundness, while providing great flexibility for the bank to provide liquidity for mortgage lending to its members. Today the bank is--excuse me--the board is approving the capital structure component of the Atlanta plan.

As with the bank's capital plan, scheduled on the bank's capital plan is the internal market risk model and a risk assessment procedures and controls must also be approved, of course, before Atlanta implements this plan. The Finance Board staff will handle this approval using our standard procedures, subject once again to a three-day review period by the Board of Directors.

There are several resolutions before us that are involved in the approval of the plan which I understand we will handle in a single vote if the board so agrees. Let me call now on our managing direct, Jim Bothwell, to present this agenda item. Jim?

MR. BOTHWELL: Thank you, Mr. Chairman, and good morning, Director O'Neill, Director Weicher and Director Mendelowitz.

Mr. Chairman, there are several items on this morning's agenda. As you mentioned the first of these items is the capital structure plan of the Federal Home Loan Bank of Atlanta. And it involves three related resolutions for the board's consideration.

The first of these resolutions would the Atlanta Bank's capital structure plan dated April 8, 2002. And as you noted, Mr. Chairman, accordance with Finance Board regulations, this resolution requires Finance Board approval of the Atlanta Bank's internal market risk model and risk assessment procedures and controls before implementation can occur.

If the board votes affirmatively today on this resolution, the Atlanta Bank will be the second Federal Home Loan Bank to receive approval to implement the permanent risk base capital structure required by the historic Gramm-Leach-Bliley legislation. The second of the resolutions would waive the six month notice requirement for retention of the Atlanta Bank's existing stock, thus allowing the bank to convert more quickly to its new permanent capital structure. And the third resolution, Mr. Chairman, specifies the provisions of the Finance Board’s financial management policy that the Atlanta Bank still would be subject to upon implementation of its new capital structure.

And at this time, Mr. Chairman, I would like to ask Scott Smith, the Acting Director of the Office of Policy, to present the Atlanta capital plan for the Board's consideration.

DR. SMITH: Thank you, Jim.

Good morning, Mr. Chairman and members of the Board. Staff is requesting that the Board of Directors consider and approve three resolutions, all of which are concerned with and constitute approval of the structural component of the Atlanta Federal Home Loan Bank's capital plan.

In response to staff comments, the Atlanta plan has been revised several times since its submission. The Finance Board staff now finds that the most recent version of the plan, approved by the Bank's Board of Directors April 8th of 2002, complies with Finance Board regulations. The Atlanta plan is a straight forward, all Class B, stock plan, with two set classes of stock, Class B1 and Class B2.

Since Class B stock plus retained earnings constitute permanent stock, as defined by Gramm-Leach-Bliley, all the Bank's stock would be eligible to meet risk based capital requirements. And in meeting the 4 percent leverage requirement for unwaived stock, the Bank will also meet the 5 percent weighted stock leverage requirement without question.

At this point in time in going forward staff believes that the leverage requirement, rather than the risk based capital requirement, will be the binding constraint on the Bank's minimum capital. Furthermore, our staff finds that all features of the plan appear to be consistent with the concept of fairness to all members and with the cooperative nature of the Bank System. If approved, the Bank intends to convert to the new capital structure in about one year.

Implementation of the plan will position the Bank with more permanent capital and with the distribution of capital among members that is more directly related to the amount of business each member does with the Bank. Further implementing the plan will require that the Bank adopt a more state of the art risk management process. Otherwise, the Bank is expected to go forward with little or no change in the current business plan.

Under the plan a member's total side purchase requirements will equal the sum of its membership requirement and its activity based requirements. The plan requires that each member hold Class B1 stock to meet the membership requirement set at .15 percent of a member's assets and capped to be no greater than $25 million to start.

The plan allows the Bank to adjust the percentages between .05 percent and 4 percent and to also adjust the cap to as low as $15 million or as high as $40 million. Dividends on Class B1 stock may be paid either in cash or in stock under the plan. Activity based stock purchase requirements must be met with Sub Class B2 stock. Separate percentages apply to each of three types of activities with the stock purchase requirement for advances starting at 4.75 percent with a range of 3 1/2 to 6 percent, the stock purchase requirement for AMA, also starting at 4.75 percent, and with a range for 4 to 6 percent, and with the stock purchase requirement for targeted debt and equity investments starting at 8 percent and ranging from 6 to 9 percent.

It is perhaps worth noting that the plan describes a Sub Class B3 of stock, but does not authorize it at this time. In other words, the Bank will need to amend its plan if and when it wishes to issue B3. And, of course, any amendments will require Finance Board approval.

Finance Board rules provide that the minimum stock purchase or investment requirements established by the capital plan must be set at a level which provides sufficient capital for a Bank to comply with its minimum capital requirements. The Finance Board indicated in the original capital rule and amendments to that rule that a bank has flexibility to capitalize some portion of its balance sheet with stock that has not been raised through members' purchase of required stock as long as the minimum investment requirements and the Bank's capital plan do not create undue reliance on excess stock.

Toward that end Finance Board staff requested that the plan include a provision limiting the amount of excess stock that the Bank could use to meet its minimum capital requirements. This sufficiency provision essentially ensures that excess stock is used primarily to support short-term investments. The Atlanta Bank agreed to this change and it is reflected in the April 8th plan. The Bank should have no difficulty in complying with this provision because the plan also provides that the Bank will repurchase nearly all excess stock on a regular basis.

Staff analyzed the Atlanta plan to determine whether the minimum stock purchase requirements comply with Finance Board's rules and the similar statutory provision and will result in sufficient capital for the Bank to operate in a safe and sound manner within the guidelines articulated by the Finance Board. As part of this analysis, staff reviewed materials submitted by the Bank to support approval of the plan, including pro forma financial statements, the assumptions behind these statements, and management's estimate of the amount and type of stock that would be associated with the pro forma statements.

Staff's review also includes stress testing of the capital structure of the Bank as discussed in the plan. The stress test results did not reveal any obvious safety or soundness concerns. Overall, given the activities and the risk profile implicit in the pro forma financial statement submitted by the Bank and based on review of the stress scenario, staff believes that the plan should allow the Bank to meet the leverage and risk based capital requirements under normal conditions and under those stressful conditions specifically reviewed.

Staff also found no indication that the pricing of activities or the structure of minimum investment requirements would result in the Bank undertaking transactions in an unsafe and unsound manner or in a manner that would materially benefit some members over others. Staff further did not find any apparent impediment to the Bank's achieving dividend levels that would be attractive to members. Thus, staff has not identified any apparent structural flaws or other problems in the plan and the initial proposed minimum investment requirements that will prevent the Bank from maintaining sufficient capital to comply with statutory and regulatory requirements and to continue to operate in a safe and sound manner.

I would be pleased to answer any questions.

CHAIRMAN KORSMO: Thank you, Dr. Smith.

Are there any questions? Board member have any questions, comments?

DIRECTOR O'NEILL: I guess I just want to echo your comment that obviously this system, the 12 Federal Home Loan Banks is a cooperative system. But I think this is another example of how the regulator and one of the Banks has worked together, in a very cooperative way, to get to where we are today. And I think a lot of that should--is because of your leadership, Mr. Chairman, that we have such an ambitious time table that we, so far, are meeting. So I thank not only our staff but the staff of the Atlanta Bank for getting us to this point.

CHAIRMAN KORSMO: Thank you.

Any other comments, questions for Scott?

Dr. Mendelowitz?

DIRECTOR MENDELOWITZ: One of the aspects of the plan that you highlighted was the fact that the Atlanta Bank plans to manage its capital, the size of its capital closely and repurchase excess capital expeditiously so that they are not faced with a circumstance of having lots of extra capital lying around which would lead them to possibly undertake investments that aren't related to the core mission and which would therefore result in putting risk on the balance unrelated core mission. And I think that's good.

As I said, when we considered the Seattle plan, when we look at a government sponsored enterprise with preferred access to capital markets because of the privileges extended by the government, we have to be ever mindful of the fact that "big" as a stand alone descriptor is not necessarily good. So I think that's good.

However, the way in which we achieve that careful control of the size of capital and discipline on investments unrelated to mission is an explicit commitment in the plan to immediately repurchase excess capital. And I want to say again what I said when we considered the Seattle plan. B stock under Gramm-Leach-Bliley statute is permanent capital. And the possibility or repurchase should not be considered by the member and therefore investor as a highly liquid asset. The promise of repurchase should not be viewed as the equivalent of a right of redemption. And these, this capital should not be viewed as a highly liquid asset. I want to stress that.

Secondly, I'm a bit bemused to find in the plan a description of the privileges, immunities, and restrictions of a class of stock which the plan does not intend to create and which explicitly says will only be created by formally amending the capital plan and coming to the Finance Board for an approval of the amendment. I have to say that is the strangest component of a plan I've ever seen. And it reminded me of what goes on in the software industry where companies notify the public that software is coming, but it sort of like never materializes. And it's been referred to in the industry as "vaporware."

So this B3 stock in the Atlanta plan is sort of like vaporstock. And in terms of good drafting, I think it's not a good idea to include in a plan the privileges, immunities, and restrictions of something that you don't create in the plan. I found that a little strange and I would hope that that not set a precedent for plans submitted by other banks.

And lastly, I do want to echo the Chairman and Director O'Neill's observations that both the staff and the Atlanta Bank have worked very diligently and very hard, under a lot of pressure, to meet an early time frame and successfully reach conclusion. And I want to express my appreciation to everybody that worked so hard on bringing us to this point. I'm glad to say we're ahead of schedule. And I hope that we will be able to consider and approve the remaining 10 plans under the schedule laid out by the Chairman of the Board.

CHAIRMAN KORSMO: Thank you, Dr. Mendelowitz.

Any other comments?

Unless there's objection, we'll consider the three motions, one, to approve the capital structure plan, two, to approve the waiver of withdrawal notice requirement, and three, to approve the financial management policy exemption as one motion. Would any director care to make that motion?

DIRECTOR O'NEILL: I make the motion.

CHAIRMAN KORSMO: Mr. O'Neill has made the motion that the three resolutions be approved as included in our board book. Is there any discussion of the motion?

Hearing none the Secretary will please call the role.

MS. BAKER: On the motions before the board, Chairman Korsmo, how do you vote?

CHAIRMAN KORSMO: Aye.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Aye.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

CHAIRMAN KORSMO: The motion is adopted. The Atlanta plan has been approved which leaves us, as Dr. Mendelowitz has pointed out, with a mere 10 more to do in the coming months.

Let me note that tomorrow at 2:00 p.m. the board will hold a public hearing to give the Federal Home Loan Banks an opportunity to explain, in the words of the hearing notice, how their respective proposals for new capital structures are consistent with a cooperative system and how their plans achieve the goal of providing liquidity for their members in a safe and sound manner. As you all are aware, of course, two banks have proposed to use excess stock from one member to support the activities of other members and would rely on excess stock in general to support long term investments. In addition, three Banks vary from most others in proposed treatment of AMA stock purchase requirements.

I mention this to emphasize that, again, as Dr. Mendelowitz has said, that our action on the capital plan is a learning process to a certain extent. I know it certainly is for me. Questions may arise after a plan's approval. And the Bank and Board staffs may find it necessary to make amendments. The Board staff here understands that. And we will continue to work with any and all of the Banks to enact changes as needed.

Again, my special thanks, again, as we have all mentioned, not only to our own staff but particularly to the president of the Atlanta Bank, Ray Christman, and his staff, for helping us more this whole process along expeditiously.

Item two on our agenda involves some amendments to our affordable housing regulations. Many of the Federal Home Loan Banks and the housing groups that I work with have come to the Board with suggestions for how the affordable housing program could be made more efficient. The changes are a question of flexibility of being able to fit the program to specific projects or make changes as a project is developed.

President Bush, of course, has made housing and home ownership a priority of his Administration and a more responsible affordable housing program will be a good complement to those initiatives. Again, let me call on Mr. Bothwell to introduce this agenda item. Jim?

MR. BOTHWELL: Thank you, Mr. Chairman.

The only thing I would add to your description of the agenda item is that this is the final, and I would just like to ask Charles McLean, the Deputy Director in the Policy Office to present the final rule for the Board's consideration.

MR. MCLEAN: Thank you, Jim.

Good morning, Mr. Chairman and Directors. The staff is before you to recommend the adoption of final amendments to the Finance Board's regulation governing the operation of the Affordable Housing Program, the AHP.

In June of 2001 the Finance Board conducted a workshop to discuss certain aspects of the Affordable Housing Program's operations. At that time representatives of the Federal Home Loan Banks, their members, advisory councils, and individuals representing private sponsors and national housing groups provided the agency with information about circumstances they were encountering that could not be readily addressed under certain provisions of the regulation.

As a result of this meeting, as well as additional consultation with the community investment offices and the advisory councils of the Federal Home Loan Banks, in

December 2001 the Finance Board published a proposed rule or questioning comment on certain proposed amendments to the AHP regulation. The proposed rule 60 day comment period closed on February 25, 2002. 41 comments were received, but the comments generally supported the amendments. Some commentors also introduced issues that were beyond the scope of the proposed rule and which after further study and analysis may be subject to subsequent ruling-making.

The staff recommends that the Board adopt the final rule contained in your Board Books, which is generally consistent with the amendment set forth in the proposed rule. The key amendments are the following: number one, making the standards for approving a modification or increasing the subsidy of a project after completion the same as those currently applicable for a project prior to completion. This will provide the Banks with more flexibility to participate with other funding sources and work out arrangements to help total projects retain their affordable units.

The second amendment is eliminating the current definition of homeless households for the purpose of scoring applications that reserve units for such households and permitting each Bank to define this term in its AHP implementation plan. The amendment would allow the Banks to take into consideration regional characteristics of homelessness, particularly in rural areas with few organized shelters.

The third amendment is permitting the Banks to award points under the scoring criteria for donated properties for projects using properties conveyed by a non federal entity at amounts that are significantly below their fair market values as defined by the Bank in its AHP implementation plan. The change would give the Banks more flexibility than the nominal price requirement that is in the current regulation. In addition, the amendment would remove the nominal price requirement for properties conveyed by the Federal Government and clarify that a Bank may award variable scoring points for property conveyed by the Federal Government depending on the amount charged for such conveyance. This change would be consistent with the statutory priority for such properties and would allow the Banks to be more responsive in dealing with foreclosed housing units owned by HUD and other Federal Government agencies.

The fourth amendment is giving the Banks the option of allocating the greater of three million or 25 percent from the next year's required annual AHP contribution for the current year's competitive application program to address special market conditions. The Banks currently have the same option under the AHP Home Ownership Set Aside Program. This authority under the competitive program would give each Bank greater flexibility to meet unusual current demands, to take advantage of special funding opportunities from other housing sources, or to mitigate the effects of the FAS 133 accounting rule on the annual AHP contribution.

A fifth amendment permitting the Banks in their discretion to allow sponsors of home ownership projects to reuse recaptured AHP direct subsidies used without payment, closing cost, rehabilitation, and interest rate buydowns to assist additional eligible households in an approved project. The current rule requires that any direct subsidy recaptured as a result of a homeowner's sale of refinancing of a property be returned to the Bank. This change would allow for a more efficient use of AHP subsidies by continuing to assist households in accordance with the original AHP application commitments while minimizing transaction cost.

The proposed rule contained a provision for reuse of unused interest rate subsidies for mortgages that prepay in the loan pool held by a member. Based on the comments received, staff has determined that additional information is needed to address this provision.

The staff also recommends the adoption of several additional technical amendments aimed at giving the Banks more administrative flexibility in operating their programs, including the processing of applications and managing of funding rounds.

Staff is ready to respond to any questions you might have.

CHAIRMAN KORSMO: Thank you, Charles.

Any questions for Charles or Melissa?

DIRECTOR O'NEILL: First, I guess, a comment that I already made to you, Mr. Chairman, but for the other Directors and the staff when I was in Indianapolis last month, both the staff and the Board of Directors complimented this Board for the last set of modifications to the Affordable Housing Program, saying that it really did make the program much more user friendly. So things that you do here, do have a real world effect. And at least that one was very much appreciated.

I just, one of the things that we're doing right now is we're doing away with nominal one dollar language. And I just want to say that this issue has been around for such a long time that I call it the Larry Costiglio provision, because Larry always thought that this would be tying the hands of not only the Board and the Banks and the members that this one dollar as the nominal price made little sense. So this is kind of the great thing about Boards like this is even if it takes a while, we can finally right some wrongs that we might have done in the past. And I think this is great that we--this is in with the different amendments.

CHAIRMAN KORSMO: Thank you, Director O'Neill.

Any other comments?

Director Leichter?

DIRECTOR LEICHTER: Yes. I just want to point out that many of these changes were from the workshop that we've had last June. And when we had the workshop we told all of our disciplines and everyone in the AHP program that we would respond to the suggestions that were made. And obviously we're doing that. And I want to, again, express my gratitude for everyone who participated in that workshop. I also want to express my gratitude to you, Charles and Melissa and all the staff who worked on this. We certainly listened to the comments and the suggestions and I think the keyword here is flexibility. And we are trying to create greater flexibility for the Affordable Housing Program. I think we're all very proud of the program, but that doesn't mean that the program can't be made more efficient, can't be made more user friendly, and can't achieve even more than it has already. So I don't see this as the last step, but part of an ongoing process where as we look at the program and can see that suggestions can be made, that we will make. And so I'm pleased that we have these final regulations before us. And I look forward, Charles and Melissa, and the rest of the staff to addressing some of the other points that have been made. There are issues of monitoring, and so on, that I think we need to look at and where improvement can be made. But this is a good step. Thank you.

CHAIRMAN KORSMO: Thank you.

Any other comments?

Director Mendelowitz?

DIRECTOR MENDELOWITZ: It falls to me to thank the one person that hasn't been thanked yet. And--

CHAIRMAN KORSMO: Well, wait a minute.

[Laughter.]

CHAIRMAN KORSMO: Oh, go ahead.

DIRECTOR MENDELOWITZ: I do want to thank Director Leichter on the record. His leadership on this issue has been sustained. He's been tireless in his commitment and in his efforts to strengthen and improve the Affordable Housing Program. It has been pointed out that the amendments are a direct result of the AHP seminar held last June. And that workshop, though, in fact, was conceived by Director Leichter and was chaired by Director Leichter. And it was his vision and his commitment to making this program better that over the past year got us to this point. So I want to express my appreciation for that.

I also want to join in thanking Charles and Melissa, who have worked hard on this. Sharon, you're sitting back there, and Sharon also for working very hard. All the staff who have dealt with this have worked hard.

And the dedication to this program and making it better are an inspiration today.

With that said, the world isn't static. The world is always changing. And the goal shouldn't be to just get to today and make some improvements and pat ourselves on the back and then go to sleep. I think this is a good accomplishment, but I think our commitment should be to commit to continuous improvement and that job is never done. And I look forward to the coming months hopefully to seeing other improvements in the program that make it more effective, more efficient, and more user friendly. So that's the challenge. Take satisfaction in where we got to today, but let's look forward to building on those successes by making the program even better.

One last point I would like to make is that last June we had the AHP workshop. This June Director Leichter is chairing a workshop on community and economic development. And we got real tangible benefits from the last workshop, and I'm looking forward to seeing what develops from this workshop and what kind of improvements we can make to the system as a result of it. Thank you.

CHAIRMAN KORSMO: Thank you.

And with that, the Chair would entertain a motion to approve the final rule and recognizes Director Leichter.

MR. LEICHTER: I make the motion.

CHAIRMAN KORSMO: Motion has been made to approve the final rule implementing the amendments proposed on December 11, 2001, for streamlining and improving the operations of the Affordable Housing Program. Is there any discussion?

Seeing none, the Secretary will please call the role.

MS. BAKER: On the motion before the Board, Chairman Korsmo how do you vote?

CHAIRMAN KORSMO: Aye.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Aye.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

CHAIRMAN KORSMO: The motion is carried. The final rule is adopted. I mentioned a minute ago the President's housing initiatives. HUD's fiscal year 2002 budget includes $200 million for the American Dream Downpayment Fund as part of HUD's program. And I know, were he here, Dr. Weicher would call attention to it. The purpose of the plan is to continue to have more Americans reach the dream of home ownership. The fund will help an estimated 30,000 low income families per year become first time home buyers.

I have asked the board staff, along the lines of what Dr. Mendelowitz's motion, to look for ways that the Affordable Housing Program can help by focusing more on home ownership. I understand we're preparing a variety of options so I anticipate that the board will continue to work on this important program in the coming months.

All of that having been said, let me add my thanks to Charles and Melissa, and particularly to Director Leichter for his hard work in this regard. Thank you very much. We appreciate it.

Next on our agenda is a final rule concerning the number of scheduled meetings of the Board of Directors of the Office of Finance. As I understand it this final rule requires the Office of Finance to hold at least six in person meetings per year. I've probably just said anything we had to say about this. Nevertheless, I will go through the process.

Mr. Bothwell?

MR. BOTHWELL: Yes, Mr. Chairman.

You did say it was a final rule. I just want to add that the six minimum number of board meetings for the Office of Finance, if the Board approves the rule today will be the same standard that the Board set last year. Pat Sweeney of the Office of Policy.

MS. SWEENEY: Good morning, Mr. Chairman and Board members. And thank you. You've all just stolen my thunder here. So in a New York minute I think I can get this over with.

We're asking for approval by the Board of Directors on this final rule that amends the Finance Board's regulations governing the minimum number of board meetings for the Office of Finance. The final rule authorizes the Office of Finance to hold no fewer than six in person board meetings. On February 13th of this year, the Finance Board approved the proposed rule which was subsequently published in the Federal Register on March 7th and with a comment period of 30 days.

And much to our pleasure, there were no comments received on that rule.

As you know, this rule sets a minimum number of meetings, which is actually establishing a floor rather than a ceiling on the number of meetings that the Office of Finance Board may hold. The current regulations requires that the board hold no fewer than nine meetings. Of course the board may hold more meetings than required in order to carry out its duties and properly oversee its operations.

Setting a minimum number of in person board meetings at six per year strikes an appropriate balance between the needs of the Finance Board as a safety and soundness regulator and the obligation that is incumbent on the Office of Finance to determine the number of meetings to hold each year in order to carry out its oversight responsibilities. Notwithstanding the proposed reduction in the minimum number of meetings to be held annually, the Office of Finance is expected to continue to maintain a level of oversight on its operations and to observe all of the appropriate safety and soundness guidelines. With that in mind, any questions?

CHAIRMAN KORSMO: Any questions for Ms. Sweeney?

Seeing none, the Chair would entertain the motion to approve the final rule.

DIRECTOR MENDELOWITZ: I so move.

CHAIRMAN KORSMO: Thank you.

Director Mendelowitz has moved that we adopt the final rule establishing--to amend the regulation governing the minimum number of meetings that the Office of Finance Board of Directors must hold each year. The final rule requires the Office of Finance to meet at least six in person meetings per year. Is there any discussion of the motion?

Seeing none, the Secretary will please call the role.

MS. BAKER: On the motion before the board, Chairman Korsmo, how do you vote?

CHAIRMAN KORSMO: Aye.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Aye.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Aye.

CHAIRMAN KORSMO: The motion is carried.

Thank you.

The final item on today's agenda brings us back to Atlanta where we started the meeting. We are charged with appointing a replacement public interest director for the Board of Directors of the Federal Home Loan Bank of Atlanta. You recall at an earlier meeting Ellen Sauerbrey of Maryland was appointed to serve, I believe a three-year term on the board.

Unfortunately Ms. Sauerbrey has indicated that due to the demands placed on her as the Administration's representative to the United Nations Commission on the Status of Women, she is unable at this time to accept appointment. So we are charged with making a new appointment.

I understand that Director O'Neill has a nomination to make?

DIRECTOR O'NEILL: Yes, Mr. Chairman. I move that we replace Ellen Sauerbrey with Robert Strickland, the Executive Director of the Alabama Housing Finance.

CHAIRMAN KORSMO: Director O'Neill has moved approval of the nomination of Robert L. Strickland, Jr., of

Alabama to serve a three-year term on the Board of Directors of the Federal Home Loan Bank of Atlanta.

Are there any other nominations? Are there any other nominations?

Seeing none, is there any discussion of the motion?

Director Leichter?

DIRECTOR LEICHTER: Yeah. I've had a chance to look at Mr. Strickland's resume and he's extremely well-qualified. And I am particularly pleased that he has such a good strong background in affordable housing. Let me just mention, last time we considered public interest directors we had some differences of views. Let me say there were never differences on the goal of having strong governance because all of us are in agreement in the importance of the Board of Directors of the various Federal Home Loan Banks. We do have some disagreement about process.

And I want to say to you, Mr. Chairman, I think we're on the road of working out those differences of opinion and I think we have all learned from the meeting of March 6th and the events that led up to that. So I look forward to moving on from there. And this is certainly an indication of our ability I think to consider these public interest directors in a deliberative fashion and to have involvement by all the members of the Board of Directors. And that just strengthens our work, it strengthens the governance of the Board. And I think it enables us to better fulfill our obligation to what I consider is a great System. So I'm very happy to vote for Mr. Strickland.

CHAIRMAN KORSMO: Thank you, Director Leichter.

Any other discussion of the motion?

Dr. Mendelowitz?

DIRECTOR MENDELOWITZ: Mr. Chairman, as Director Leichter reminded us at the March 6th meeting he and I raised what we felt were serious concerns with the process of selecting public interest directors. While I still have some concerns, I want to acknowledge that you have taken steps to address some of the concerns and issues that were raised. We still have work to do, but I'm hopeful that working together we can develop the process for selecting public interest directors going forward that is inclusive of all the members of the board and is a better process than we've had in the past for achieving the goal of enhancement of the governance in this system.

Robert Strickland is a candidate that I feel will contribute greatly to the board of the Federal Home Loan Bank of Atlanta, the corporate governance of the system. I support his appointment and look forward to working with him in the future.

CHAIRMAN KORSMO: Thank you.

Any other comments? Any other discussion of the motion?

If not the question before us is on the appointment of Robert L. Strickland, Jr., to serve a three-year term as a member of the Board of Directors of the Federal Home Loan Bank of Atlanta. The Secretary will please call the role.

MS. BAKER: On the motion before the Board, Chairman Korsmo, how do you vote?

CHAIRMAN KORSMO: Aye.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Aye.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

CHAIRMAN KORSMO: The appointment of Robert L. Strickland, Jr., is approved. And let me extend my special thanks at this time to Director O'Neill and also to Director Leichter and Director Mendelowitz. I think we are making progress on the issue. We can have a process that we're all comfortable with. And I think that's very important.

Let me also thank everybody for this meeting today. We're making real progress on what is a major challenge for us, getting these capital plans approved. I'm hoping that the process is working. I hope everyone is comfortable with the briefing process that we're putting together on the capital plans and that that's a valuable exercise. I apologize that I, due to weather, missed the briefing on Monday. But I understand it was a good exchange and was very valuable in helping us get to this decision today.

Let me also mention before we adjourn that you will recall from the last meeting that the risk model and the risk assessment procedures for the Seattle Bank needed to be approved by today for them to move ahead with their scheduled implementation of their capital plan on June 30th. And I'm happy to report that those letters have gone out and also I'm happy that each of you have had a chance to review those procedures.

Again, I think we have tried to include in them the importance of our comfort level with those, with not only the model but particularly with the risk assessment processes and procedures. It is a dynamic function. They will continue to improve. I want everyone to remain comfortable that the staff is keeping track of this process and will periodically report to us not only the successes but any concerns they may have in that regard. And so let me pass that on and thank the members of the board again for their participation in this process.

Any other business any director has to bring before the Board?

Arnie Intrater has his hand up.

Mr. Intrater?

MR. INTRATER: Just the usual request that any technical changes for the final rules to conform with the Federal Register requirements.

CHAIRMAN KORSMO: Without objection, that admonition is honored.

Any other discussion, anything else to come before the board?

Hearing none, I thank you again for the meeting today and your participation. I appreciate it very much. This meeting is adjourned. Thank you.

[Whereupon, at 10:47 a.m., the meeting was adjourned.]