

FEDERAL HOUSING FINANCE BOARD

OPEN MEETING

Washington, D.C.

Wednesday, June 14, 2006

ANDERSON COURT REPORTING  
706 Duke Street, Suite 100  
Alexandria, VA 22314  
Phone (703) 519-7180 Fax (703) 519-7190

1 PARTICIPANTS:

2 Board Members

3 RONALD A. ROSENFELD, Chairman

4 FRANZ LEICHTER

5 ALICIA R. CASTANEDA

6 BRIAN MONTGOMERY

7 ALLAN I. MENDELOWITZ

8 Also Present

9 CHRIS BOSLAND

10 STEPHEN CROSS

11 BILL GLAVIN

12 THOMAS HEARN

13 JOHN P. KENNEDY

14 CHARLES JONES

15 THOMAS JOSEPH

16 JOSEPH MCKENZIE

17 DARIS MEEKS

18 MICHAEL POWERS

19 MARK PRETZAT

20 CHRISTIE SCIACCA

21 JAMES SHANNON

22 SHELIA WILLIS

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P R O C E E D I N G S

(10:00 a.m.)

CHAIRMAN ROSENFELD: Good morning everyone. I call this meeting of the Federal Housing Finance Board to order. Today we will have an open session followed immediately by a closed session where the Board will receive updates of examination and supervisory findings.

We now need to vote to approve closing the latter portion of today's meeting as required by the Sunshine Act and Finance Board Regulations. And since the closed portion of today's meeting will contain sensitive and confidential bank examination information, I would ask for a motion to seal the transcript of this portion of the meeting. Director Leichter.

MR. LEICHTER: Mr. Chairman, I move to close that portion of the meeting and further that this Board determine that the record and transcript of this closed portion of the meeting be kept confidential.

CHAIRMAN ROSENFELD: Thank you for the

1 motion. Is there any discussion of the motion?  
2 Seeing none the Secretary will please call the  
3 roll on the motion.

4 SECRETARY WILLIS: On the item before  
5 the Board, Director Leichter how do you vote?

6 MR. LEICHTER: Yes.

7 SECRETARY WILLIS: Director Castaneda?

8 MS. CASTANEDA: Yes.

9 SECRETARY WILLIS: Director Mendelowitz?

10 MR. MENDELOWITZ: Yes.

11 SECRETARY WILLIS: Director Montgomery?

12 MR. MONTGOMERY: Yes.

13 SECRETARY WILLIS: Chairman Rosenfeld?

14 CHAIRMAN ROSENFELD: Yes. The motion is  
15 carried and the subsequent portion of our will be  
16 closed and its transcript will remain closed and  
17 confidential. Thank you.

18 Let us now turn to the public portion of  
19 today's meeting. The first item is a  
20 consideration of the Financing Corporation's FICO  
21 request to increase its 2006 budget. Who will be  
22 making the staff presentation?

1 MR. MCKENZIE: I will.

2 CHAIRMAN ROSENFELD: Joe. Thank you.

3 MR. MCKENZIE: Good morning Mr. Chairman  
4 and Members of the Board. The Federal Home Loan  
5 Bank Act as amended by the Competitive Equality  
6 Banking Act of 1987 established the fact financing  
7 corporations to assist in the recapitalization of  
8 the Federal Savings and Loan Insurance  
9 Corporation. FICO issued approximately \$8.2  
10 billion of bonds between 1987 and '89 to fund  
11 FSLIC. And it also used capital contributions  
12 from the Federal Home Loan banks to defease the  
13 principal on the FICO bonds.

14 FICO is managed by a three person board  
15 of directors consisting of two Federal Home Loan  
16 Bank Presidents and the Managing Director of the  
17 Office of Finance. FICO is staffed by Office of  
18 Finance employees. The Bank Act established the  
19 Finance Board as regulator for FICO. Finance  
20 Board's regulations require FICO to submit its  
21 annual budget to the Finance Board for approval,  
22 following approval by its Directorate. On

1 November 9th of last year, the Board of Directors  
2 of the Finance Board approved the 2006 FICO  
3 budget. That resolution further delegated to the  
4 Director of Office of Supervision authority to  
5 approve subsequent FICO budgets up to as long as  
6 they did not exceed \$25,000.

7 On May 12th of this year the FICO  
8 Directorate submitted a budget amendment for  
9 \$20,000. The amount of this budget amendment plus  
10 the approved 2006 FICO administrative and non-  
11 administrative budgets of \$16,300 exceeds the  
12 threshold specified in Finance Board Regulation  
13 2006-21 for Delegated Approval.

14 Consequently, the Board of Directors of  
15 the Finance Board must consider this request. The  
16 reason for the budget amendment is unanticipated  
17 legal expenditures for two separate items.  
18 Seeking legal assistance on both items is well  
19 within the discretion of the FICO Directorate.  
20 The subsequent budget request is reasonable and  
21 Finance Board approval is necessary for FICO to  
22 incur these expenses. The Office of Supervision

1 takes no objection to the budget amendment, there  
2 are no policy or legal reasons why the Board of  
3 Directors of the Finance Board should not approve  
4 this request.

5 CHAIRMAN ROSENFELD: Thank you.

6 MR. MCKENZIE: Thank you very much.

7 CHAIRMAN ROSENFELD: Do any other Board  
8 Members wish to comment?

9 If there is nothing else, I will accept  
10 the motion to approve the resolution and to allow  
11 staff to make conforming changes to the rule.

12 MR. LEICHTER: So moved.

13 MS. CASTANEDA: Second.

14 CHAIRMAN ROSENFELD: Will the Secretary  
15 please call the roll.

16 SECRETARY WILLIS: On the item before  
17 the Board Director Leichter how do you vote?

18 MR. LEICHTER: Yes.

19 SECRETARY WILLIS: Director Castaneda?

20 MS. CASTANEDA: Yes.

21 SECRETARY WILLIS: Director Mendelowitz?

22 MR. MENDELOWITZ: Yes.

1 SECRETARY WILLIS: Director Montgomery?

2 MR. MONTGOMERY: Yes.

3 SECRETARY WILLIS: Chairman Rosenfeld?

4 CHAIRMAN ROSENFELD: Yes. The motion is  
5 adopted.

6 The second item is a consideration of a  
7 final rule that would move certain data reporting  
8 requirements from regulation to the Data Reporting  
9 Manual. Who will be making the staff  
10 presentation?

11 MR. HEARN: I will be Mr. Chairman.  
12 Thomas Hearn.

13 CHAIRMAN ROSENFELD: Thank you Tom.

14 MR. HEARN: Good morning Chairman  
15 Rosenfeld and Members of the Board. Today we are  
16 recommending that you take two actions to finalize  
17 the process of reorganizing reporting requirements  
18 imposed by the Finance Board on the Federal Home  
19 Loan banks.

20 By way of background, Congress has  
21 imposed on the Finance Board a duty to insure that  
22 the banks operate in a financially safe and sound

1 manner and has delegated to the Finance Board  
2 broad powers to fulfill this mandate. Among these  
3 powers is the authority to examine the books and  
4 records of each bank and to require informational  
5 reports from each bank.

6 In February 2005 the Finance Board  
7 signaled its intention to reorganize the way it  
8 imposes reporting requirements on the banks. This  
9 reorganization comprised three parts. One,  
10 imposing certain reporting requirements by Finance  
11 Board order contained in resolutions; two,  
12 removing certain reporting requirements from  
13 regulations; and three, adding regulations  
14 requiring each bank to comply with all reporting  
15 requirements.

16 The goal of the proposed reorganization  
17 was to have reporting requirements that are  
18 enforceable, but which where necessary can be  
19 changed with greater flexibility than would be  
20 possible if the requirements were contained in  
21 regulations. The Finance Board initiated the  
22 reorganization in July 2005 when the Board of

1 Directors adopted a resolution creating the Data  
2 Reporting Manual and moving into the manual the  
3 reporting requirements for the Call Reports  
4 System. In August 2005 the Board of Directors  
5 adopted a similar resolution, adding to the manual  
6 reporting requirements related to bank membership.

7 Today we recommend that the Finance  
8 Board complete this reorganization, by adopting as  
9 a final rule the removal from regulations of  
10 reporting requirements related to mortgage  
11 purchase and director eligibility and adding a  
12 resolution that would place those requirements in  
13 the Data Reporting Manual. We also recommend that  
14 the Finance Board adopt as a final rule the  
15 regulatory changes proposed in February 2005 to  
16 require each bank to file regulatory reports  
17 according to the instructions and schedules  
18 established by the Finance Board. The recommended  
19 changes would also require each bank to make its  
20 books and records available for inspection within a  
21 reasonable period of time.

22 I would be happy to address any

1 questions that you may have at this time.

2 CHAIRMAN ROSENFELD: Thank you. Do any  
3 other Board Members have any comments?

4 MS. CASTANEDA: I would like to make a  
5 statement Mr. Chairman. Thank you, Tom for your  
6 presentation.

7 This rule is about getting timely and  
8 accurate data from the banks, but as I have said  
9 before when we put out the proposal it is also  
10 about simplifying and streamlining our data  
11 requirements as much as possible. And I want to  
12 reiterate that this Board is always mindful of  
13 regulatory burdens associated with its actions.  
14 Since the proposal we have issued several chapters  
15 of the Data Manual. Our staff continues to work  
16 on others. My understanding is that there has  
17 been good dialogue and feedback between the Board  
18 and the banks in that process. So I hope that the  
19 concerns of those commentators who worry the banks  
20 would not have any input under the proposal have  
21 been mitigated to some extent by our actual course  
22 of practice.

1           I expect our staff will continue to work  
2 with and get feedback from the banks in advance on  
3 future refinements and I encourage the banks to  
4 continue working actively with us in these  
5 efforts.

6           Regulation and analysis depends on the  
7 quality and integrity of the information  
8 available. Our goal is to insure we get the  
9 information we need and do so as efficiently as  
10 possible. With the Board and the banks committed  
11 to that goal I hope the enforcement aspects of  
12 this regulation will prove to be a precautionary  
13 step that will never be called upon. Thank you.

14           CHAIRMAN ROSENFELD: Any other comments?

15           MR. LEICHTER: If I may just add to what  
16 Director Castaneda said and I think she is  
17 absolutely correct. I think it's important to  
18 point out that this regulation and the procedures  
19 we're setting up with the DRM is going to make it  
20 much easier for the banks to have one source to go  
21 to -- to find out what their data requirements  
22 are. I also think we need to emphasis the

1 interest that this Agency and this Board has in  
2 getting full information from the banks and really  
3 improving the data collection. I think in many  
4 areas our data collection, while may be adequate,  
5 can be improved and so I want to second what  
6 Director Castaneda said.

7 The importance of the banks working with  
8 the Finance Board to be certain that we get all of  
9 the data that is needed so that we can have a real  
10 good and full understanding of what is happening  
11 in the system, how the banks are operating and  
12 what the Finance Board needs to do to support the  
13 activities of the bank. So I think this is an  
14 important step. It may seem very technical, but  
15 it really goes to the heart of what we're doing.  
16 So I wanted to thank you Tom and Steve and a lot  
17 of people, Gary, and others who have worked on  
18 this very diligently for a long period of time.

19 It's very technical, it's tough work but  
20 it's very important.

21 CHAIRMAN ROSENFELD: If there's nothing  
22 else I will accept a motion to approve the

1 resolution and to allow staff to make technical  
2 and conforming changes to the rule.

3 MR. KENNEDY: Mr. Chairman. There are  
4 two things that they need to vote on. The  
5 resolution needs to cover both the regulation,  
6 excuse me, the resolution and secondly, the adding  
7 to the DRM for reporting requirements for AMA and  
8 the bank director eligibility. There's actually  
9 two items that have to be covered by the motion.

10 MR. HEARN: It's the final rule --

11 MR. KENNEDY: Right. It's a final rule.

12 MR. HEARN: -- that's being voted on as  
13 well as the resolution adding the additional  
14 reporting requirements to the Data Reporting  
15 Manual.

16 CHAIRMAN ROSENFELD: Are you requesting  
17 one or two votes?

18 MR. KENNEDY: You can do this by one  
19 motion. I just wanted to make sure the motion  
20 covered both of those items.

21 CHAIRMAN ROSENFELD: Well, someone want  
22 to make the motion.

1 MR. LEICHTER: So moved.

2 MS. CASTANEDA: I second.

3 CHAIRMAN ROSENFELD: Would the Secretary  
4 please call the roll.

5 SECRETARY WILLIS: On the two items  
6 before the Board, Director Leichter how do you  
7 vote?

8 MR. LEICHTER: Yes.

9 SECRETARY WILLIS: Director Castaneda?

10 MS. CASTANEDA: Yes.

11 SECRETARY WILLIS: Director Mendelowitz?

12 MR. MENDELOWITZ: Yes.

13 SECRETARY WILLIS: Director Montgomery?

14 MR. MONTGOMERY: Yes.

15 SECRETARY WILLIS: Chairman Rosenfeld?

16 CHAIRMAN ROSENFELD: Yes. The motion is  
17 adopted. This will end the open session of the  
18 meeting. I thank all of you for attending. I  
19 hope you all have noticed that the Directors have,  
20 with the exception of Director Montgomery, have  
21 all moved into their summer attire. And it does  
22 not suggest that we're not going to be working at

1 full steam but nevertheless it is summertime.

2 MS. CASTANEDA: And Mr. Chairman, so  
3 have you.

4 CHAIRMAN ROSENFELD: Pardon?

5 MS. CASTANEDA: You have also.

6 CHAIRMAN ROSENFELD: Oh. Yes. Thank  
7 you.

8 MS. CASTANEDA: Let's make it clear  
9 about that. Okay?

10 CHAIRMAN ROSENFELD: This ends the open  
11 session of the meeting. We will reconvene in  
12 closed session in three minutes.

13 (Whereupon, at 10:10 a.m., the  
14 PROCEEDINGS were adjourned.)

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