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FEDERAL HOUSING FINANCE BOARD

Building Blocks

World Trade Center Disaster

New York FHLBank Offices Destroyed; No Injuries, Re-opens at Alternate Site

The offices of the Federal Home Loan Bank of New York were destroyed in the attack on the World Trade Center in New York City on September 11, but all 120 employees escaped injury and the bank continued operations the next day from an alternate site in New Jersey.

The FHLBank of New York occupied the 22nd floor of World Trade Center Building 7, a 47-story structure near the twin towers in the World Trade Center complex. The building collapsed around 5:30 p.m. the day of the attack after being damaged and set afire when the twin towers were destroyed earlier in the day.

According to news reports, most of the bank's employees were at their desks when the first tower was hit shortly before 9 a.m., but no evacuation was carried out because there was no eminent danger. However, when the second attack occurred shortly after 9 a.m. the offices were evacuated. Among those evacuated were four bank examiners of the Federal Housing Finance Board, the FHLBank System's safety and soundness regulator.

"We are thankful our employees and those of the FHLBank of New York were

quickly removed from harm's way. The management and staff of the FHLBank should be commended for its quick actions to evacuate the building and move all employees to safety," Federal Housing Finance Board Chairman J. Timothy O'Neill said.

"The FHLBank System suffered only minor disruptions during the attacks in New York and Washington and was fully operational within a few hours," he added.

The FHLBank of New

York's alternate site is located in Jersey City, New Jersey, across the Hudson River from the World Trade Center complex. The site contains computers, phones, faxes, back-up copies of all documents, and is equipped to handle all normal transactions of the FHLBank. This was the second time in the FHLBank's history it used the back-up facility; the first was in 1993 when a truck bomb exploded in the World Trade Center parking garage, killing six people.

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Finance Board Seeks Input on Multiple FHLBank Memberships

The Federal Housing Finance Board on September 26 approved a notice and solicitation of comments that addresses the issue of multiple memberships in Federal Home Loan Banks, particularly the ramifications it could have for the FHLBank System.

The notice solicits public comment on a series of policy questions relating to whether single financial institutions should be allowed

to become members of more than one FHLBank at the same time, particularly in cases where a member of one FHLBank district acquires a member institution in a different FHLBank district.

"This issue relates to the consolidation that has been occurring in the banking industry, and raises a variety of questions about how the FHLBank System should respond to these changes,"

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Remarks of Finance Board Chairman J. Timothy O'Neill

"I echo the sentiments of President Bush in expressing deep sympathy and sorrow for the devastation and loss of life that occurred yesterday that profoundly affects all of America. One of the 12 Federal Home Loan Banks, the FHLBank of New York, was directly affected - its headquarters at 7 World Trade Center was destroyed.

"However, I have spoken to FHLBank of New York President Alfred A. DelliBovi, and I am pleased to report that all employees of the FHLBank and four of the Finance Board's bank examiners were safely evacu-

ated. The New York FHLBank now is operating from its disaster recovery site and is providing funding and other services as needed to its member institutions. In keeping with the cooperative nature of the FHLBank System, the other 11 Federal Home Loan Banks stand ready to provide assistance as needed. The FHLBank System is taking all steps necessary to ensure it maintains its ability to access funds and, in turn, provide necessary operating liquidity to its 7,800 members.

"As its safety and soundness regulator, the Finance Board will do its part to ensure that the

FHLBank System continues to run smoothly by being supportive and responsive to any situation that may arise from this incident. This System has been fulfilling its mission of providing liquidity for housing finance and community development for 69 years with no interruption, and we will not allow it to be deterred from this vital function.

"Our hearts and prayers are with all those affected by this terrible tragedy." **BB**

J. Timothy O'Neill
Chairman
September 12, 2001

(FHLBANK, from page 1)

"My message to our members is that we are up and running and that we will be available to them, said FHLBank of New York President Alfred A. DelliBovi, according to the American Banker, an industry trade magazine. The FHLBank has 300-plus members in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands.

Approximately 25 percent of the bank's employees were already working at the Jersey City office when the attacks were launched.

All of the 12 FHLBanks have

alternate sites where the FHLBanks can move operations during emergencies. The FHLBank of New York was only one of three FHLBanks that instituted emergency procedures on September 11.

The FHLBank of Cincinnati moved operations from its headquarters in a 20-story office building in downtown Cincinnati to its alternate site in Blue Ash, Ohio, 20 miles away across the Ohio River. The decision to move was made after news reports that a fourth plane, leaving Newark and bound for San Francisco, had been hijacked.

"We put this into play when we heard the plane had made a sharp turn in Cleveland, because we had no idea where it was headed," according to Melissa Dallas, spokeswoman for the FHLBank of Cincinnati. The FHLBank had practiced the move several times, according to Dallas, mostly in connection to Y2K concerns in months prior to January 1, 2000, but September 11 was the first time the move was for real. The FHLBank resumed operations at its downtown headquarters the next morning.

The offices of FHLBank of Chicago were also evacuated on September 11 when employees were moved to the FHLBank's back-up facility near O'Hare International Airport. All employees returned to the FHLBank's downtown facility the next morning.

The FHLBank of New York has established a temporary office at 200 Park Avenue but will also continue other operations from the Jersey City facility. The FHLBank's phone number in New York is (212) 294-1800; in New Jersey it is (201) 356-1000. **BB**

www.fhfb.gov

Items added recently to the Finance Board's web site:

- The FHLBank of Cincinnati has published its Capital Structure Plan, joining the FHLBanks of Pittsburgh and Seattle.
- The Finance Board's Commercial Activity Inventory has been posted.

Questions for Multiple Membership Issue

The Finance Board is soliciting comments on the following questions, which relate to how developments in the membership base have affected the FHLBank System, and how permitting a single depository institution to become a member of more than one FHLBank might affect the FHLBank System. This part of this notice contains all the questions for which the Finance Board specifically seeks comment.

Structure of the FHLBank System

1. What are the implications for the FHLBank System of increasing consolidation among the membership base of the FHLBanks? Specifically, what are the risks to a FHLBank of having a significant portion of its business and capital stock concentrated in a small number of large members, and what is the best way to manage those risks? How does such concentration of business and stock affect the distribution of FHLBank services to

the membership and the governance of the FHLBanks?

2. What are the implications for the FHLBank System of the current structure under which two or more depository institutions that are subsidiaries of the same holding company may become members of separate FHLBanks? Specifically, have such “affiliated memberships” caused competition among FHLBanks to a degree that was not contemplated when Congress created the FHLBank System? If so, is such competition either beneficial or harmful to the accomplishment of the public purposes of the FHLBank System?

3. What, if any, restrictions on the terms of membership for depository institutions that operate in more than one FHLBank district, or for depository institutions whose affiliates are members of other FHLBanks, are necessary or appropriate to minimize any risks that may be associated with such members or to pre-

serve the cooperative nature of the FHLBank System?

4. What would be the implications of revising the structure of the FHLBank System to allow a single depository institution to become a member of more than one FHLBank? Would the risks or benefits of such a structure differ materially from those presented by the current structure, under which affiliated depository institutions may be members of different FHLBanks? Would revising the structure in such a manner affect the ability of the FHLBanks to achieve their statutory mission to support housing finance and community lending or affect FHLBank and FHLBank System safety and soundness?

5. Would allowing a single depository institution to become a member of more than one FHLBank affect the distribution of membership benefits to small members relative to the larger members? How would it affect the distribution of membership benefits to large institutions that are members of only one FHLBank, relative to large institutions that are members of more than one FHLBank?

6. Certain depository institution members currently conduct a significant portion of their business beyond the geographic boundaries of their FHLBank district. What effect do these inter-district activities have on the safety, soundness, stability, and mission achievement of the FHLBank System?

7. What actions, if any, should the Finance Board take in response to the increasing amount of inter-district activities conducted by some members of the FHLBank System?

8. What are the implications, for distribution of Affordable Housing Program (AHP) funds, of continued consolidation within the membership base of the FHLBank System and the expansion of out-of-district financing activities? More specifically, how does inter-district consolidation and expansion of out-of-district financing activities affect the geographic distribution of AHP funds? Given that certain FHLBanks have limits on the amount a single institution may receive in
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(INPUT, from page 1)

said Finance Board Chairman J. Timothy O’Neill.

“Since this is an issue of great importance to the future of the FHLBank System, we want the FHLBanks, their members and any other interested parties to make their views known. Their input will be of great assistance as we decide what our course of action will be,” he said.

The solicitation poses nine separate questions relating to: 1) consolidation of institutions within the banking industry; 2) how such consolidation affects the FHLBank System; 3) whether permitting multiple memberships by one institution would enhance or detract from the cooperative nature of the FHLBank System; 4) what alternatives might better address these issues, and 5) how it would affect the Affordable Housing Program (AHP).

The solicitation also poses eight questions about how to resolve the variety of regulatory issues that would need to be addressed if single institutions

were allowed to join more than one FHLBank. Under current Finance Board regulations, no single institution can be a member of more than one FHLBank. However, about 100 holding companies have two or more subsidiaries, each of which belong to a different FHLBank. Upon publication of the solicitation in the Federal Register, there will be a 90-day period for public comment. The full text of the notice is available on the Finance Board web site at www.fhfb.gov.

Also at the September 26 meeting the Finance Board approved a final rule on the AHP that streamlines monitoring requirements and enhances program implementation.

In addition, the Board approved a final rule with technical amendments to the Community Investment Cash Advance program regulations, and a waiver extending until January 28, 2002 compliance with regulations relating to unsecured credit limits and minimum liquidity requirements. **BB**

AHP funds, how do these changes affect the distribution of AHP funds?

9. Should the Finance Board consider invoking its statutory authority to consolidate two or more FHLBanks and/or to readjust district boundaries, or take some other action, as a means to address any strains placed on the FHLBank System by the ongoing consolidation within the banking industry?

Multiple FHLBank Membership

1. If the Finance Board were to determine that a single depository institution may become a member of more than one FHLBank under section 4(b) of the Bank Act, what factors should the Finance Board consider in determining whether a particular institution would meet the “demanded by convenience” standard required by section 4 (b)?

2. What conditions, restrictions, or limitations should the Finance Board impose on a single depository institution if it were permitted to become a member of more than one FHLBank to ensure that the institution does not pose any undue risks to those FHLBanks, their respective members, or to the cooperative nature of the FHLBank System? What conditions, restrictions, or limitations should the Finance Board impose to allow the FHLBank System to better achieve its housing finance mission if a single depository institution were to be permitted to become a member of more than one FHLBank?

3. Because the number of “adjoining districts” varies from FHLBank to FHLBank, how could the Finance Board best ensure that members in different FHLBanks, if permitted to become members of more than one FHLBank, would have equal opportunities under section 4(b) to become a member of a FHLBank in an adjoining district? Would a limitation on the number of FHLBanks that any one institution could join be an appropriate means to avoid disparate treatment of members?

4. How should the stock purchase requirements of each FHLBank be applied to an institution if it were permitted to become a member of more than one FHLBank? Should the Finance Board require such members to comply with the stock purchase requirements of each FHLBank in the same manner as those requirements apply to all other members, particularly in light of section 7(j) of the Bank Act, which requires each FHLBank to administer its affairs impartially and without discrimination against any member?

5. Given that the FHLBanks are now developing plans to implement a new capital structure, and given that members, if allowed concurrent memberships in two or more FHLBanks, might be subjected to different stock purchase requirements at each FHLBank, should the Finance Board use its authority to approve those plans to require that all FHLBanks impose

equal, or very similar, stock purchase requirements for membership, advances, and other activities such as mortgage purchases?

6. How would single depository institutions if permitted to become members of more than one FHLBank affect the collateral practices of the FHLBanks from which those members obtain advances, and what safeguards should the Finance Board adopt to ensure that advances to such members do not present any undue risks to the FHLBanks or to the FHLBank System?

7. To what extent, if any, should an institution if it were allowed to become a member of more than one FHLBank be permitted to participate in the election of directors for its “non-principal” FHLBanks and, if such participation were allowed, would it have any adverse effects on the non-principal FHLBanks or on their members, particularly the smaller members, such as community financial institutions?

8. What financial and other information about the prospective member should the Finance Board require to be submitted by an institution if it were permitted to apply for an additional FHLBank membership under the Bank Act? Specifically, in any case involving a merger of two institutions, should the eligibility of the surviving institution for the additional FHLBank membership be determined based on an analysis of the combined entity, *i.e.*, as it exists subsequent to the merger? **BB**

President Bush to Nominate Bowné, Korsmo to Board

On September 14, the White House announced President George W. Bush’s intention to nominate Shirlee Bowné to be a member of the Finance Board, and upon confirmation, she will be designated chairman. Bowné is currently the president of S. Bowné and Company in Tallahassee, Florida, a planning and housing firm, and is a member of the board of directors of the Florida Central Credit Union. From 1991 to 1997, she served as vice chairman of the National Credit Union Administration and vice chairman of the Neighborhood Reinvestment Corporation.

On August 21 the President announced he would nominate John T. Korsmo to the Finance Board for a term expiring next February. Korsmo is from Fargo, North Dakota, and operates Korsmo Consulting Services and was vice president of physician’s relations and network development for Heartland Health System in Fargo. **BB**

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