

FEDERAL HOUSING FINANCE BOARD

BOARD MEETING

OPEN SESSION

Wednesday, September 10, 2003

1:30 p.m.

Federal Housing Finance Board
1777 F Street, N.W.
Second Floor Board Room
Washington, D.C.

BOARD MEMBERS :

JOHN T. KORSMO, CHAIRMAN
JOHN C. WEICHER
ALLAN MENDELOWITZ
J. TIMOTHY O'NEILL
FRANZ S. LEICHTER

STAFF :

JOHN FOLEY
JOHN WATERS
ARNOLD INTRATER
JUDITH HOFMANN
MARY H. GOTTLIEB

A G E N D A

1. Proposed Rule Regarding Registration of Federal Home Loan Bank Securities under the Securities Exchange Act of 1934. 7
2. Appointment of the Private Citizen Member and Chair of the Office of Finance Board of Directors. 44
3. Withdrawal of Proposed Rule Regarding Acquired Member Assets (AMA). 51
4. Federal Housing Finance Board Fiscal Year 2004 Budget, Office of Management. 66

P R O C E E D I N G S

CHAIRMAN KORSMO: This meeting of the Federal Housing Finance Board will please come to order.

Before we move to the items on the agenda, we need to act on a procedural part of this meeting. The Government in the Sunshine Act and Finance Board regulations require a vote to approve the closing of a portion of this meeting which will take place immediately following the open portion. As the announced agenda states, the closed portion is a periodic update of examination program developments and supervisory findings.

The Sunshine Act in section 522(b)(c)(8) of the U.S. Code and Finance Board regulations in section 912.5(b)(1) specifically allow closure of meetings to receive such updates.

We held our first such session last month and intend to continue them in the future, allowing the Office of Supervision staff to update the Finance Board on examinations and our supervisory program.

By their very nature, these sessions will include bank -- excuse me, bank -- new \$12 glasses.

[Laughter.]

CHAIRMAN KORSMO: Will include bank examination information that is sensitive and confidential, thus the purpose of the closed session.

Both the Sunshine Act and section 912.5 of Finance Board regulations require a vote of the Finance Board to close a portion of a meeting. Section 912.5(b) specifies expedited closure procedures for review of exam programs and findings.

The transcript of this portion of the meeting will, of course, contain information that may be withheld from publication under section 912.4(a) of our regulations.

So at this point I would ask for a motion to both close that portion of this meeting dealing with exam programs and supervisory findings and to seal the transcript and record of that portion of the meeting.

DIRECTOR LEICHTER: Mr. Chairman, pursuant to Finance Board regulation section 912.5(b), I move to close that portion of this meeting dealing with the review of Finance Board examination programs and supervisory findings, and further that this board determine, pursuant to Finance Board regulation section 912.5(c) that the record and transcript of this closed portion of the meeting shall be kept confidential, pursuant to Finance Board regulation section 912.4(a)(8).

CHAIRMAN KORSMO: Thank you, Director Leichter.

Is there any discussion of the motion?

Any discussion of the motion?

Hearing none, the secretary will please call the roll on the motion.

MS. GOTTLIEB: On the approval of closing a portion of this meeting dealing with the examination programs and supervisory findings and to seal that portion of the record and transcript.

Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. GOTTLIEB: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. GOTTLIEB: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. GOTTLIEB: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. GOTTLIEB: Chairman Korsmo.

CHAIRMAN KORSMO: Aye. The motion is carried, and at the appropriate time after we have completed the open portion of our agenda, we will move to the closed portion.

Item 1 on our agenda today is a proposed rule regarding registration of Federal Home Loan Bank securities under the Securities Exchange Act of 1934.

I believe this proposed regulation is necessary to accomplish the overriding goal of enhanced disclosures for the 12 Federal Home Loan Banks to the best and most widely accepted disclosure mechanism, registration with the Securities & Exchange Commission under section 12(g) of the Securities Exchange Act of 1934.

As I noted at yesterday's oversight

hearing, my unwavering support for voluntary registration is based on two premises:

First, the Bank's long-term access to global capital markets will be enhanced by providing investors and consolidated obligations with maximum reliable transparency into the finances and governance of each of the 12 Banks. Markets function best, especially in times of stress, when needed information is readily available and reliable.

Second is public trust. These trial GSEs have a duty to contribute both to the smooth functioning of capital and mortgage finance markets and to the public confidence if the benefits of GSE status are used wisely.

While I know my fellow directors are well versed in the disclosure issue, allow me to provide a brief time line summarizing the developments that have led us to this proposal appearing on the Finance Board's agenda today.

Last July the Bush administration called on all government-sponsored enterprises to register

with the Securities & Exchange Commission. The administration support has remained firm and consistent on this point.

Assistant Secretary of the Treasury Wayne Abernathy made disclosure a focus of his testimony yesterday at the oversight hearing before Chairman Bennett's subcommittee. Secretary Abernathy said, "The observance of good fundamental practices of corporate governance is a high priority of this administration. Foremost among such practices is regular, comparable, quality disclosure of corporate financial conditions. Investors in GSE securities should have access to the same corporate disclosures as they have for other companies who publicly offer their securities for investment."

When the administration made its call 14 months ago, I certainly agreed in principle about improving the quality of financial and governance disclosures, as I know did every member of this Board, and the value of consistency and comparability. But I also wanted further information about how SEC registration might

function with respect to the Federal Home Loan Banks before considering action.

To gain that information, I formed a working group from the Federal Home Loan Banks and the Federal Housing Finance Board which met in August, September, and October of last year. In December the Finance Board held a public hearing on SEC disclosure at which the Federal Home Loan Banks were represented.

In January, after reviewing the issues, I too came to the conclusion that SEC registration was the best way to achieve the most transparent and consistent reporting of the finances and governance of the Federal Home Loan Banks.

What has followed are meetings by Federal Home Loan Banks with the SEC to discuss key issues related to voluntary registration. The meetings were either, in the case of Cincinnati and Chicago, done one on one with the SEC, or through a representative committee of the Banks.

The Boards of Directors of the Federal Home Loan Bank of Cincinnati certainly warrant, I

think, separate mention, specific mention. The Board has actively embraced the disclosure initiative as in the best interest of its members, voting in February to pursue voluntary registration. In its meetings with the SEC, Cincinnati had the opportunity to ask questions and resolve its concerns about four major questions: The accounting of annual REFCORP payments, the treatment of stock as permanent equity, the handling of combined reports, and how joint and several liability should be accounted for and disclosed.

With that work moving toward completion, the Cincinnati Board resolved last month to "actively engage, effective immediately, in the process of voluntary registration with the SEC in its member-held stock."

I appreciate the Board's leadership in this area.

Last month, too, on August 18th, senior officials of the Securities & Exchange Commission briefed the Federal Housing Finance Board on the

next step necessary to effect voluntary registration: direct and individual meetings with each Federal Home Loan Bank to resolve any remaining issues.

I should note that the Finance Board staff has also briefed the Board twice in the last several months. We are certainly all more than familiar with the issue, and I believe sufficiently knowledgeable to take an important step forward toward a conclusion, a positive conclusion of this debate.

The impetus then for today's proposed action is the decision this summer by the Boards of two banks, Atlanta and San Francisco, to accede to voluntary registration if other disclosure regimes have been precluded, while requesting a Finance Board regulation that would require such registration. They regard a regulation as a useful means of protecting against liability concerns.

I cannot speak to that argument today, but in light of the Banks' views, I have placed a proposed regulation on today's agenda and, of

course, this proposed regulation serves the disclosure end I have discussed.

The proposed rule contains a 120-day comment period. This lengthy period will allow the Banks to meet one on one with the SEC to determine how best to effect voluntary registration. If unanticipated questions or obstacles arise, certainly the final regulation can be written to accommodate a solution.

It remains my hope that the Boards of the other 11 Federal Home Loan Banks follow Cincinnati's example by affirmatively electing voluntary registration with this regulation as a back stop. But if one or more Banks do not use the 120-day period to meet with SEC staff to identify and resolve remaining questions, the regulation will, when finalized and adopted by this Board, serve to compel registration.

From the start of this debate, my goal has been to ensure that the Federal Home Loan Banks play their part as government-sponsored enterprises in contributing to the smooth functioning of the

capital and mortgage finance markets. Consistent and full disclosures of these institutions' finances and corporate governance also serve the public who stand behind their charters as government-sponsored enterprises.

The time has come, I believe, to put in place a disclosure regime that achieves these goals and today's proposal will accomplish just that.

Before we proceed, let me say how much I appreciate the hard work not only of the staff, but particularly of my Board colleagues, that my Board colleagues have put into development of this proposed regulation. This is not an easy subject. This is -- there is no easy way to answer to question of how best to ensure the Federal Home Loan Banks meet their disclosure responsibilities to the public they serve, but my colleagues, who take their responsibilities very seriously, deserve credit for moving us toward this important goal, and I thank each of my colleagues for their input into this process.

With that, the Office of General Counsel

is here to present the regulation proposal.

MR. FOLEY: Thank you, Mr. Chairman.

The Finance Board's supervisory and examination authority over the Banks includes a responsibility to ensure that the securities activities of government-sponsored enterprises are conducted in the public interest and for the protection of investors.

This obligation was reinforced when Congress assigned to the Finance Board the statutory duty to ensure that the Federal Home Loan Banks remain adequately capitalized and able to raise funds in the capital markets.

The proposed regulation would require each Federal Home Loan Bank to prepare and make public certain disclosures relating to its business and financial condition. Each Bank would satisfy these disclosure requirements by voluntarily registering the class of its securities with the Securities & Exchange Commission under the provisions of section 12(g) of the '34 Act. By voluntarily registering a class of its securities, each Bank will subject

itself to the '34 Act's periodic disclosure regime, as interpreted and administered by the SEC.

Staff recommends that the Finance Board approve the proposed regulation for the following reasons:

Comprehensive, fully transparent securities disclosure is necessary if the Banks are to maintain the long-term confidence of the investment community and the national rating agencies.

The rules and regulations that form the '34 Act's periodic disclosure system established the best practices standard for disclosure by U.S. corporations.

The SEC has the resources and the expertise to ensure that the individual -- that individual Bank disclosure documents meet this standard.

Bank accounting and financial statement reporting issues have become significantly more complex in recent years because of new financial accounting standard board statements.

In particular, FAS 133, accounting for derivative instruments and hedging activities, has given rise to interpretative complexities. The SEC staff has the extensive accounting expertise required to comprehensively review Bank disclosure in this area.

Finally, Fannie Mae has voluntarily registered its common stock with the SEC and Freddie Mac has agreed to do so upon the completion of its restatement of its financial statements.

Staff recognizes the benefit of having core securities disclosure of all the housing GSEs overseen by the same regulator.

That concludes my remarks, and I would be happy to respond to any questions you may have.

CHAIRMAN KORSMO: Thank you, Mr. Foley.

Does any director have any questions of Mr. Foley? Any questions?

If not, the Chair would entertain a motion to approve the resolution making the proposed rule regarding registration of Federal Home Loan Bank securities under the Securities Exchange Act of

1934. Is there such a motion?

DIRECTOR O'NEILL: I so move.

CHAIRMAN KORSMO: Director O'Neill has moved adoption of the resolution adopting the proposed rule regarding registration. Is there any discussion of the motion? Any discussion of the motion?

Director Mendelowitz.

DIRECTOR MENDELOWITZ: I just want to clarify the parliamentary procedure. Now we are entering the phase where we are discussing the rule?

CHAIRMAN KORSMO: That is correct. Yes, sir, that is correct.

DIRECTOR MENDELOWITZ: The issue of requiring Federal Home Loan Banks to register voluntarily with the Securities & Exchange Commission has been the subject of many spirited discussions here at the Finance Board, throughout the Home Loan Bank System, and throughout all the members of the banking community who benefit from association with the Home Loan Bank System.

The issue clearly has never been about enhanced disclosure and the issue has never been about trying to ensure the best possible disclosure.

On the contrary, I would venture to say that all of my colleagues on the Board clearly support the best possible disclosure for the Federal Housing Finance system. The only issue has been who should administer these disclosures and the costs and benefits associated with the SEC involvement.

Let me say that it is clear to me there are many outstanding issues between the Federal Home Loan Banks and the SEC that need to be resolved. In fact, even the Board of Directors of the Cincinnati Bank, which has been the most willing to voluntarily register with the SEC, stated clearly in its most recent letter that any decision it makes with respect to voluntary registration is conditional on resolving a whole host of open issues that still exist between Cincinnati and the SEC.

So even the Bank that has been most willing to voluntarily register with the SEC still sees significant obstacles that need to be resolved before it can reach a conclusion on that matter.

The -- as I said, there are a lot of issues open.

More importantly, there are some serious issues that need to be resolved between the Board and the SEC. Our responsibility, first and foremost in our statute, is to assure the safety and soundness of the Home Loan Bank System. The SEC's statutory responsibility is to protect investors through disclosure.

There have been some very widely reported, unfortunate incidents in the past where an effort of a financial institution to assure safety and soundness appeared to run afoul of what the SEC determined to be the best disclosure practice, and as a result the Bank in question was forced to reduce its loan loss reserves which I viewed as weakening its fundamental safety and soundness situation.

So I think that clearly we as a Board need to engage with the SEC to make sure that nothing in our statute is subservient to provisions that the SEC implements through its statute.

There are also potential issues between the Finance Board and the Financial Accounting Standards Board that may need to be resolved. Financial Accounting Standards Board clearly doesn't spend a lot of time worrying about provisions of law that apply to a government-sponsored enterprise.

Now my favorite example is how the definition of capital is handled in FAS 150. For those who think that accounting is an arcane issue, capital is something that has a lot of attributes, and I always like to describe it as something akin to an onion, and you can take away some of the attributes of capital and still have it classified as capital, just as you can take away some of the layers of an onion and still have it characterized as an onion.

But the problem is that when you take away

some of the attributes of capital, a point is reached where it no longer in fact really is capital and can't count toward capital. And so FAS 150 specifically deals with trying to differentiate between those things that are truly capital and those things whose attributes have been sufficiently diminished, they are no longer capital.

This is relevant in the private sector because the most expensive source of funding for any kind of business is capital. If you are able to remove some of the attributes of capital, you are able to reduce the cost of capital.

So, hence, in the private sector, private investors and businesses enter into freely contracted relationships in which attributes of capital are reduced and the return the investor receives is reduced along with that because the risk is reduced.

So FAS 150 is important, you know, in helping to sort out what is capital and what isn't as private businesses try to reduce the cost of

capital.

The capital of our system is clearly defined in statute. We know what it is. Irrespective of what the Financial Accounting Standards Board in FAS 150 says, we know what our capital is and we are comfortable with that capital and, more importantly, the Congress of the United States is comfortable with that capital because it established that capital in law.

So the determinations that the FASB has to make about our capital really, I think, are less important than what our statute has to say, and the fact that FAS 150 has a second stage that's coming along that may in fact present problems for us means that we really need to engage with FASB to make sure in fact the things we have in statute somehow don't get ignored when FASB does its rulemaking.

So, there's a lot out there. There's a lot between the Banks and the SEC, the Finance Board and the SEC, the Finance Board and the FASB and others, and all of these things need to be resolved

as issues to be brought under consideration.

So, there's a lot of unanswered questions, and until these are resolved, you know, satisfactorily, I will withhold judgment on where I will come out on the final rule.

That said, however, I stand willing to work through these issues in the coming months. I want to thank the Chairman and my colleagues on the Board for their willingness to work together, trying to resolve this matter. I think that by working together we can resolve many of the potential issues that will arise.

I support the proposed rule and I will vote for it, but only because I feel that it is the start of the substantive consideration of the issues, not the predetermined end.

The next four months will be important to the continued success of the Federal Home Loan Bank System, and I look forward to participating with my colleagues in consideration of this important issue.

CHAIRMAN KORSMO: Thank you, Director

Mendelowitz. I appreciate your comments.

Is there any other discussion of the motion?

Director Leichter.

DIRECTOR LEICHTER: Yes, I think it's important to emphasize that the issue has never been about disclosure. Mr. Chairman, you stated some time ago that you wanted the Federal Home Loan Banks to be the role model for transparency. I fully support that goal and I applaud you for stating it that succinctly and that emphatically, and I think we are all committed to it.

The issue has never been about disclosure. The issue is whom do you disclose to and how do you best protect a system which has been so important to the capital markets, to home ownership in America, and to do it in a way which also protects and fully informs the investors of the system and certainly the members in the system.

I just want to say, I guess, of the five of us, I was the only one who, fortunately or unfortunately -- probably unfortunately -- has a

public record because I served in the legislature and cast a lot of votes, some of which I wish I hadn't cast.

[Laughter.]

DIRECTOR LEICHTER: But one vote I always cast was for openness, transparency, and disclosure, over and over and over again. So my record on that is very clear, and I want to work together and we have worked together, all the directors here, and the presidents of the banks, to assure that we have that form of transparency which will satisfy the highest and the most exacting standards.

Let me also say that I am an admirer of the SEC. I think that they play such an important role and have really created the best system for allowing investors and business corporations to gain information. It's certainly not a completed process, as the SEC would be the first one to say, but there's no doubt that as people like to say, they are the gold standard of disclosure. There's no question about it.

And let me take this opportunity to express my gratitude to Alan Beller for his cooperation with the Board, with the Banks, his accessibility, availability, readiness to answer questions, and I want to say that he gives me a lot of confidence about the competency and the integrity and the fairness of the SEC.

The question just is, do the Home Loan Banks really fit the SEC model, and to what extent will adjustments have to be made in the SEC model to accommodate the Home Loan Bank System? After all, this is a system of cooperatives. Our stock is not publicly traded. Yes, we seek to make a profit, which we hopefully return to the public in terms of lower mortgage costs and the AHP and in paying off the REFCORP payments, but therefore we differ significantly, for instance, from Fannie and Freddie, which have publicly traded stocks.

So the issue comes down to whether there are requirements of the SEC which in some ways would impair the proper functioning of the Home Loan Bank System. I do not know the answer to that

question, frankly. We have discussed it. There are a lot of issues. And I think one thing we ought to be very clear on, and I know nobody here has made the statement, but occasionally you might read that Federal Home Loan Banks are reluctant to disclose. That's not the case. The Banks have been very clear that they want to meet that higher standard of disclosure.

The only issues they have raised are ones whether the SEC model will in some way impede or interfere with the function that I think they have carried out so well.

And I think the issues they have raised have not been because they are reluctant to make disclosure. The issues are legitimate issues and concerns. Director Mendelowitz has mentioned some of them. Let me just repeat what I believe are some significant issues.

Obviously the issue of capital is a very significant one, and it kind of rides in a very direct way as we, of course, all know, the class B stock of the Home Loan Bank System is redeemable on

a five-year notice.

Under the SEC rules, as soon as a notice of redemption is put in, the Banks would have to show the value of the stock that's being redeemed as a liability.

Now if a large member puts in a notice of redemption and you then have to move onto the liability side the value of that stock, you might find that that Bank has impaired capital under the SEC accounting standards, the GAAP rules, when in point of fact, as we know, under the statutory construct, the Bank's capital is permanent, is there, and in point of fact at the end of five years, if the Bank doesn't have the necessary capital, the redemption will not proceed.

Nevertheless, it would have to show this as a liability.

So the issues of that sort, these are legitimate concerns that need to be worked out, and hopefully can be worked out. I don't think they have been worked out yet, and need to be addressed.

There is the issue of joint and several

liability. The SEC will require that each Bank shows its participation in the joint and several liability as it would a guarantee.

Now how you value that is a very complex question, and that too needs to be addressed.

Director Mendelowitz mentioned the problems that are raised because of the changes that are being made to FAS 150. There is concerns because of an SEC internal rule, I believe it's 248. Again, I don't know whether these are issues that are insoluble. My hope and belief is that they can be addressed, but they need to be looked at in a very careful way.

There is a question of the REFCORP liability, to what extent that will be treated on the balance sheet as a liability, and while apparently not for the individual Banks, from what Alan Beller said, it may have to be shown as a liability on the combined statement.

You know, I can run through about, 10, 15, 20, maybe even more issues.

My point is this, that these are concerns

that the Banks have raised, not because they don't want to make disclosure. The concerns they have raised because they want to make disclosure, but to do it in a way that will be helpful to the system, helpful to investors, helpful to their members.

I am going to support this resolution for a number of reasons. First of all, because I think it moves along the process of getting these questions that I have raised and others, that the Banks have raised, and as you get into the process, probably more questions will be raised. This is a good way of doing it.

You know, we talk about transparency. Maybe we haven't been as transparent here on the Board as some would like in dealing with this issue. Now we are in the regulatory framework. This will allow the Banks to comment. Obviously others can comment, too. So I think we will have a better opportunity to understand the issues and to see how they can be resolved.

I think it is also helpful to continue to have the Banks meet with the SEC and to understand

that this Board wants a legitimate, good-faith effort to try to resolve these issues, because if these issues can be resolved, if we can achieve SEC disclosure, then maybe we are getting the best of all possible worlds, which is that we have the sort of disclosure which the market appreciates and understands, and we at the same time have the system not weakened, but the System strengthened.

So this process gives us an opportunity, I think, to do this.

The other reason I am going to support it is because we have been able to have a discussion, not amongst ourselves, but individually with the Chairman and --

[Laughter.]

DIRECTOR LEICHTER: -- one on one with the other directors, which I think has enabled us to recast this proposed rule in a way that I think achieves your purpose, Mr. Chairman, and I think that more appropriately has the rule or the proposed rule achieve the timetable that I think is more realistic and appropriate.

I am also impressed by the request to us by the Atlanta and the San Francisco Bank. I think it's sort of interesting. I think it has to be noted that really what the Board of Directors of those Banks were saying, we think the issues here are so complex and their resolution, if we register with the SEC, might be so harmful to the System that we as directors -- directors of the Federal Home Loan Banks -- may be sued. So please, if you want us to do this, give us the cover so that we are not subject to personal liability. And I think that just underscores their appreciation of what the complexity of the issues are.

I want to say my mind is open on the final rule. I'm voting on this. I'm in no way committing myself to any particular solution. That will depend on the comments and what the Banks are able to do in their discussions with the SEC.

I think there is something else that really also needs to be addressed, and which concerns me, and which is really a threshold issue, and that is whether this Board has the legal

authority to require the Banks to voluntarily register. I know the view has been expressed informally by counsel that that authority exists, but I think it needs to be looked at because I have also heard eminent counsel express to me the belief, in their opinion that we do not have the authority.

There is a legal issue here, and I know that sometimes it's addressed by our counsel's office by saying, well, you know, this is safety and soundness, and on the safety and soundness we can do whatever we think is appropriate.

Well, I think that argument was laid to rest very effectively yesterday. I think it was by Senator Bennett, in the connection of multidistrict who said, in effect, you know, safety and soundness is not a universal solvent which allows us to do everything we want to. I wish we could do everything we want to, but we are acting in a statutory framework.

So I think it is important that that issue be resolved. I think it is important that we all keep an open mind on the issues until we see the

comments. Certainly my mind is open on this. I hope that this process will enable us to come to a resolution that will both enhance disclosure, achieve that goal, Mr. Chairman, that you have so properly set forth for all the Banks, and at the same time strengthen the System that is so important to the capital markets and to housing in the United States.

Thank you.

CHAIRMAN KORSMO: Thank you, Director Leichter.

Let me just piggyback on two things he said. One, about the Banks' outspoken support for enhanced disclosure. That was a -- that statement was certainly appropriate. That is indeed the case. The debate has always been on how best to accomplish a goal that everyone has supported.

Secondly, I also want to support Director Leichter's comment about Alan Beller and how having Alan Beller in that position has been -- certainly has made this whole process easier. He does inspire confidence, and his willingness to work

with us has been appreciated.

Are there any other comments?

Director O'Neill.

DIRECTOR O'NEILL: I know that we have not heard from Commissioner Weicher yet, but it is safe to say that I think this vote will be unanimous. And I really want to thank both Allan and Franz for making it a unanimous vote because I think this is a very important issue, and it is one that I think it's great that all five of us think the same on an issue this important.

So I just wanted to say thank you to both of you and it's good that we can have unanimous votes.

CHAIRMAN KORSMO: Thank you, Director O'Neill.

Commissioner Weicher?

DIRECTOR WEICHER: Well, just to remove whatever suspense there may be --

[Laughter.]

DIRECTOR WEICHER: -- it will be unanimous, unless somebody changes their mind,

based on what the rest of us have said. But --

CHAIRMAN KORSMO: Don't screw this up,
Weicher.

DIRECTOR WEICHER: I'll try not to.

[Laughter.]

DIRECTOR WEICHER: I think my own summary of note
as I was listening to my colleagues is I think what
we are all saying is that the principle is right,
that the principle of transparency, of disclosure,
is the right principle, and that this proposed rule
is a step in achieving that principle in an
effective way.

As I have said in other contexts, I
certainly know from my experience at HUD that
proposed rules and final rules differ in nearly
every instance unless there are literally no
comments. And I think it is fair to say that we
will have comments on this proposed rule. So that
I think we will learn something. We may learn a
great deal in the course of the comment period.

As the Chairman alluded to, and certainly
Director Mendelowitz also alluded to, this is a

process that has been ongoing for some time. It has involved the energies of the individual Board Members and it has involved the energies of us as a body.

I agree with how a majority of my colleagues in singling out Alan Beller for the -- for his willingness to be helpful, and I have learned a great deal in the conversations and meetings that we have had with him.

I think that this is a significant step forward in the process that we have been engaged in for quite some time. I'm looking forward to moving to the next stage on this, and since we have a 120-day comment period, I'm looking forward to receiving many comments on the 119th day.

CHAIRMAN KORSMO: Thank you, Director Weicher.

Mr. Intrater.

MR. INTRATER: I want to reassure all of the directors, including Director Leichter, that the Office of General Counsel would never propose this regulation if it hadn't concluded that as a matter

of law you have the authority to propose the regulation.

CHAIRMAN KORSMO: Director Leichter?

DIRECTOR LEICHTER: Yes, I just wanted to supplement that. Let me just first respond to the very able General Counsel. I'm sure that's the case, but as you know, and I have made that request before, I think it's important to have a legal memorandum that assures the directors that we have that authority, and I will assume that that will be forthcoming, and I think we will have to look at the comments and it may be that if an issue does exist as to our authority, that we will have to take appropriate action and maybe seek counsel, as we are entitled to, as to what our legal authority is.

I just wanted to make one final comment in this general sense of harmony that exists here, and that's as it should be. You know, how much is gained, I think, when there is an opportunity for the Directors to work together in considering these issues. I think it is going to be very important

as we address the final rule that we have before us the comments and all the work that the Banks and the SEC will do in the interim, that we have that same sort of cooperative spirit and involvement of all the Directors, because I think the issues here are so complex, and the issues above all are so important that we need really the input of all of the Directors, and I have every assurance that that will be forthcoming.

CHAIRMAN KORSMO: Thank you, Director Leichter.

Are there any other comments on the motion? Is there any other discussion of the motion?

Director Mendelowitz.

DIRECTOR MENDELOWITZ: Mr. Chairman, in a lot of the debate over this issue --

CHAIRMAN KORSMO: Leichter didn't screw this up.

[Laughter.]

DIRECTOR MENDELOWITZ: In a lot of the debate over this issue, over the past months, there

have been a lot of assumptions about costs and benefits, risks and opportunities associated with getting the SEC involved, and there have been a lot of assertions about the costs and benefits, opportunities and risks of getting the SEC involved.

What has been missing from the debate has been the kind of hard, defensible analysis that tries to assess what the costs and benefits are, and quantitatively assess what we are talking about in terms of impact.

So I hope that as we receive comments on the 119th day that in addition to the standard set of comments about how things are going to impact and affect folks directly, I would very much look forward to getting analyses and studies that would help us better understand from a defensible, analytical, and quantitative way the benefits and costs and risks and opportunities.

CHAIRMAN KORSMO: Thank you, Dr. Mendelowitz.

Is there any other discussion of the

motion?

Is there any other discussion of the

motion?

Before we proceed, let me just express as the Chair my confidence in the authority of this Board to act on this matter.

With that, I will call on the secretary to call the roll on the proposed rule regarding registration of Federal Home Loan Bank securities under the Securities Exchange Act of 1934.

MS. GOTTLIEB: The approval of the proposed rule concerning registration of Federal Home Loan Bank securities under the Securities Exchange Act of 1934.

Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. GOTTLIEB: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. GOTTLIEB: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. GOTTLIEB: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. GOTTLIEB: Chairman Korsmo?

CHAIRMAN KORSMO: Yes. The motion is carried and the resolution is adopted.

Let me -- excuse me.

MR. INTRATER: Mr. Chairman, I'd just ask that you allow counsel's office to make technical and conforming changes as required for purposes of publication in the Federal Register.

CHAIRMAN KORSMO: Without objection, so ordered.

Let me once again express my thanks to all my colleagues on the Board. I think this is an important step forward. I think it is indicative of what we can do when we all work together toward a common goal, and I appreciate your support for this effort.

You are right, whoever said it, that the real work is yet ahead of us, but this is a very important step, I think, and this is why I proposed to -- I think Director Leichter made reference to this, that now is the time to actually make real progress and some decisions as to how best to

effectuate an enhanced disclosure regime for the Federal Home Loan Bank System that benefits not only the Banks, its member institutions, but the public that stands behind it.

So thank you very much to all of my colleagues in this effort.

Item No. 2 on the agenda is the appointment of the private citizen member to the Board of the Office of Finance. The private citizen director, I will remind my colleagues, serves as chairman of that Board. The other two current members of the board are Terry Smith, President of the Federal Home Loan Bank of Dallas, and Jay Roy, President of the Federal Home Loan Bank of Pittsburgh. Both demonstrate a tremendous knowledge, not just of their own institutions, but also the System at large, and certainly they both have deep understanding of finance.

I am pleased today to offer the name of Parker Harrell for nomination to the position of Public Citizen Member of the Board, and as I mentioned, by virtue of occupying that position,

Chairman of the Board. His experience, Parker's experience and knowledge of financial institutions, including specifically the Federal Home Loan Banks, is extensive and directly applicable to the operation of the Office of Finance.

Everyone on the board has seen his resume in the board book, but let me highlight several items that I believe are most relevant to this important position.

First of all, Mr. Harrell is a banker. He began his career in banking with Wachovia Bank & Trust Company in North Carolina; later was Senior Vice President for General Management at American Security & Trust Company of Washington, D.C., which of course has become Bank of America. Both institutions, Wachovia and Bank of America, are very large and active members of the Federal Home Loan Bank of Atlanta, so Mr. Harrell has seen the system from the point of view of a member institution, which I think is a valuable perspective.

In his professional life, Mr. Harrell was

also a managing director of Arthur Young & Company. He is well versed in the auditing business; again, experience that will certainly be useful in overseeing the Office of Finance.

Today Mr. Harrell is Chief Operating Officer for Korn/Ferry International Europe where he coordinates the operations of the company in 17 countries and oversees a company with \$100 million in annual revenues.

He is also Director of Global Financial Services for that international executive search firm.

In his nearly three decades in the executive search business, Mr. Harrell has participated in literally hundreds of placements of top executives in major financial institutions. Korn/Ferry helped in the hiring of many of the executives at the Federal Home Loan Banks as well as the Federal Reserve Banks.

In addition to his management experience, Mr. Harrell's background also features successful service on several important boards of directors,

including the board of Korn/Ferry, experience that will fit in well with the Finance Board's emphasis on improving corporate governance.

He is a member of the Board of Directors of Sweetbrier College and previously served on the Board of Trustees of the National Cathedral School and the St. Alban's School, all of which would suggest where his kids probably attended.

I know that Mr. Harrell has a real grasp of the System, the role of the Office of Finance, and the competitive world in which these institutions operate, and I should note he is excited about the prospect of serving as Chairman of the Board of the Office of Finance.

The Chairman's job on the Board of the Office of Finance is really one of leadership, an attribute that Mr. Harrell has demonstrated time and time again. When Korn/Ferry has a problem that needs solving, they ask Mr. Harrell to step up to the task, and he does successfully.

Of course, Korn/Ferry trusts Mr. Harrell's leadership skills enough to make him serve in top

management positions.

So, again, I offer the name of L. Parker Harrell, Jr. in nomination for the position as private citizen member of the Board of Directors of the Office of Finance. The nomination is to fill the current vacancy by completing the term expiring March 31st, 2004, followed by a full three-year term expiring March 31st, 2007.

Are there any other nominations for this position?

Are there any other nominations for this position?

Is there any discussion of this nomination?

Any discussion of the nomination?

Director Leichter.

DIRECTOR LEICHTER: Yes. I'm glad that you read some of Mr. Harrell's resume into the record. Actually he is one of those persons who keeps his resume short, rather than embellishing it, as most of us do.

Maybe I shouldn't speak about others here.

[Laughter.]

CHAIRMAN KORSMO: I guess we know what that says about Director Leichter's resume.

[Laughter.]

DIRECTOR LEICHTER: But in all seriousness, he is somebody who I think has some excellent credentials. I met with him. What particularly impressed me was his experience in dealing with people within the System, and also his enthusiasm for the position. The only concern I had was that his duties for Korn/Ferry as director of operation in Europe might interfere with his assuming this position, but he assured me, as he assured all of us, that he would have ample time that he would be in the United States any number of days each month, and therefore available to carry on the work of the Chairman of the Office of Finance.

I think it is a very important position. Obviously the Office of Finance is integral to the functioning of the Home Loan Bank System, and to have a committed Chairman I think is very

important. I think we had an excellent previous Chairman in John McEvoy, and I expect that Mr. Harrell will make a real contribution as Chairman. I am very pleased to support him.

CHAIRMAN KORSMO: Thank you, Director Leichter.

Is there any other discussion of the nomination?

Any other discussion?

Hearing none, the secretary will please call the roll on the nomination of L. Parker Harrell, Jr. to serve as Private Citizen Member and Chair of the Office of Finance Board of Directors.

MS. GOTTLIEB: On the approval of the nomination of L. Parker Harrell, Jr. as Private Citizen Member and Chair of the Office of Finance Board of Directors.

Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. GOTTLIEB: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. GOTTLIEB: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. GOTTLIEB: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. GOTTLIEB: Chairman Korsmo?

CHAIRMAN KORSMO: Yes. The nomination of -- excuse me, the appointment of L. Parker Harrell as Private Citizen Member and Chair of the Office of Finance board of directors is approved.

Thank you.

Let me also piggyback again -- I'm doing this all day -- on Director Leichter's comments. Obviously filling the shoes of John McEvoy is going to be a difficult task. He was an excellent chair of the Board of the Office of Finance. I happen to think that Parker is the person who can accomplish that, and I appreciate the support expressed by this board in his nomination. Thank you again.

Item 3 on our agenda is the withdrawal of the proposed rule regarding acquired member assets, or AMA, with the anticipation of introducing a revised version at a later date.

Obviously, as we have all heard and read,

it appears that some may have misunderstood the intention of this proposed regulation. Yet the goal of revising Finance Board regulations to better reflect the agency's supervision approach remains an important one that I, and I trust all my colleagues agree, want to see through to completion.

In doing so, I believe we will be well served by a further constructive exchange among the interested public, Federal Home Loan Banks, and Finance Board.

Some background on the proposal.

On June 18th of this year, the Finance Board adopted by a unanimous vote a proposed revision to the current AMA regulation. The proposed rule was published on July 1st in the Federal Register. The preamble to the proposed regulation contains a clear and concise summary of the Finance Board's intent; that is, to make the regulation more "effective and efficient in regulating the banks' mortgage purchase programs."

The proposed rule also clarifies and

simplifies the current rule. It did not expand or alter the fundamental structure of the AMA programs.

Although we discussed and voted on this proposal in June, allow me to describe its highlights because I believe it is important to have an accurate summary of the proposed regulation on the public record.

The proposed regulatory changes maintain our strength in many appropriate safety and soundness provisions of the current rule, which reflect the Finance Board's ongoing emphasis on improving its safety and soundness oversight of the Federal Home Loan Banks. These safety and soundness provisions include requirements that, one, all AMA must be at least investment grade when acquired by the Bank.

Too, the Bank must have in place a process and methodology to determine the required credit enhancement prior to acquisition of any assets and throughout the life of the asset on the Bank's books.

Three, the Bank must take remedial action by requiring the member to provide additional credit enhancement or hold additional capital if the estimated credit rating of the asset declines to below the rated requirement -- rating, excuse me, required at time of acquisition.

Four, insurers must be rated double-A or better to provide a portion of the credit enhancement to the member institution selling assets to the Bank.

And, five, Banks without risk-based capital structures in place must hold retained earnings for losses as support for the credit risk associated with any AMA estimated to be rated below double-A.

The proposal also retains the current regulatory limitation of AMA to whole loans or interests in whole loans sold by members.

As noted, the proposed regulation incorporates Finance Board criteria previously set forth in the preamble of the July 2000 final AMA rule outlining the circumstances under which Banks

are permitted to acquire from members highly rated interest in pools of mortgages as an alternative to acquiring whole loans.

Among the criteria is a requirement that all loans backing such interests must themselves be eligible for purchase by the Bank as AMA. As with any new AMA product, a Bank is only allowed to acquire such interests after its proposed program has been reviewed and improved -- excuse me, approved if not improved -- but approved under the Finance Board's new business activity regulation.

There are several requests for specific comment in the proposed rule, and by dint of being put forth in a comment period, the public is free to address any portion of the Finance Board's AMA regulation.

Requests for comments also focused on several specific items. For example, the proposal seeks comment on whether the Finance Board should take measures to prevent a Bank from acquiring loans or assets backed by loans through its AMA program where the loans have features or were made under

circumstances that may be considered predatory or abusive.

The proposal also asks for comment on whether and how to limit Banks' authority to acquire such loans or assets backed by such loans. This was a topic, incidentally, yesterday at the hearing. I think it certainly will be a topic we want to include for comment in any new proposal.

The text of the proposed regulation maintains the current prohibition on purchases directly from affiliates of member institutions.

However, in response to numerous requests from members using affiliates and subsidiaries for mortgage origination activities, the preamble does invite comment -- and I should mention we already have received comments on this item -- on changing current policy to allow affiliates owned and controlled by members to directly sell assets to Federal Home Loan Banks.

As I stated earlier, there is great value to revising Finance Board regulations to better reflect the agency's supervision approach. We can

and should continue this work while remaining open to further discussions with the public, the Banks, and of course us.

So today I ask the board to approve the withdrawal of this proposed regulation to assist in continuing this public exchange in the proper context.

After withdrawal, staff will be instructed to revise and clarify the regulation and bring the resulting proposed reg back to the Finance Board for a vote at a subsequent meeting.

I expect that the proposed regulation we would adopt at that time would include a 90-day comment period.

Is there a motion to withdraw the current proposed AMA regulation adopted at the June 18th meeting?

Director Mendelowitz.

DIRECTOR MENDELOWITZ: I would like to make such a motion.

CHAIRMAN KORSMO: Motion is made. Is there any discussion of the motion?

Director Leichter.

DIRECTOR LEICHTER: Yes, Mr. Chairman and fellow members. I received a copy of the letter of August 22nd that the American Community Bankers sent you in regard to the proposed AMA regulation, and I think it contains a very helpful suggestion that the American Community Bankers, possibly with other groups and with this Board, would sponsor a symposium or conference on this proposed regulation and the issues relating to the acquired member asset.

I know when I first came onto the Board, there was a lot of confusion about the capital regulation, the proposed capital regulation at that time, and ACB joined with others in sponsoring a conference that was extremely helpful in clarifying the issues, reaching a consensus. I think you remember that, Director O'Neill. And I think we would benefit similarly if American Community Bankers joined with the Board in having this sort of a conference or symposium so that these issues could be clarified. And I think that would give us

a direction and guidance in how to address these issues in a way that is understandable for the system and that is of service to the system.

CHAIRMAN KORSMO: I apologize. I remember we had this discussion, and I suggested you bringing that to this board.

DIRECTOR LEICHTER: Yes, you did.

CHAIRMAN KORSMO: Could you read the language specifically in the letter? I don't have it with me.

DIRECTOR LEICHTER: Yes. I think the --

CHAIRMAN KORSMO: What exactly were they suggesting? That we sponsor and host --

DIRECTOR LEICHTER: Well --

CHAIRMAN KORSMO: -- the event, or that they would and we'd appear? I don't recall what the proposal was.

DIRECTOR LEICHTER: Let me quote the language in this letter.

"As we have done in connection with other broad policy issues affecting the system, ACB would be pleased to work with the Finance Board to bring

together those most concerned with the System, including our members and stockholders, the Banks and others, to fully air the issues."

It goes on to say:

"We believe that such a forum could help remove some of the misunderstandings you noted in your letter of August 19th announcing the withdrawal of the AMA proposal. Ideally, the Board could lead the way toward an accommodation of the strongly held views of the System's stockholders."

CHAIRMAN KORSMO: This earlier session that you and Director O'Neill referred to was before my time. Did they host that event?

DIRECTOR LEICHTER: I think they hosted it together with the Independent Bankers and others. I know they played a leading role in this.

DIRECTOR O'NEILL: I think also the American Bankers --

DIRECTOR LEICHTER: Yes.

DIRECTOR O'NEILL: -- and also I think the council, I think it was.

DIRECTOR LEICHTER: Right. Yes, of

course.

CHAIRMAN KORSMO: Would it be more appropriate for that sort of forum to perhaps be sponsored by them? I tell you, I have a real concern about -- not about participating in such an event, but I have a real concern about us as a regulator being the sponsor and host of such an event.

DIRECTOR LEICHTER: I think you raise a good point, and I think that to have ACB, which is willing, and I'm sure the other organizations would join with them, in having such a conference or symposium in which we obviously would participate, I think would be a good way to proceed.

CHAIRMAN KORSMO: Yes, I would certainly -- I would think that would be a valuable exercise. Again, I would be reluctant for us being the sponsoring organization for such a conference, but I think it would certainly benefit not only those involved, but also the Banks and perhaps that would be the best way to proceed.

Is there any other discussion of the

motion?

Director Mendelowitz.

DIRECTOR MENDELOWITZ: Mr. Chairman, I understand that your intent is to revise the AMA rule and resubmit it based upon the -- primarily on the fact that the comments we received indicated that our commenters saw things in the rule that we didn't intend.

CHAIRMAN KORSMO: That's correct.

DIRECTOR MENDELOWITZ: When we do start working on a revised proposed rule, I would like to raise an issue which I hope we will consider as a possible provision. It goes to my favorite saw, which is retained earnings. There are two primary reasons for a Home Loan Bank to build retained earnings. One is to enable the Bank to pay steady and predictable dividends in the face of quarter-to-quarter fluctuations in accounting profit that flow from the sort of asymmetrical impact of FAS 133.

Because of FAS 133 and how derivatives get handled on the balance sheet, some derivatives get

marked to market, others don't. Offsetting assets, which in fact offset the marked to market on the derivatives in fact don't get marked to market, and so that the quarter-to-quarter fluctuations in profit can in fact reflect nothing more than noise associated with FAS 133.

But more importantly, a second reason to build retained earnings goes to the retention of unhedged risk on the balance sheet. Every financial institution obviously has some risk because there would be no profit if there was no risk. Profit is a return for absorbing risk. But clearly the AMA program represents the most striking of the new risks being put on the balance sheet. They are long-lived assets which the risk cannot be hedged entirely because of the realities of the market. The extension risk presented by mortgages is in fact the primary unhedged risk, and the building of retained earnings is one important way to reflect on the balance sheet appropriate measure to strengthen the ability of the balance sheet and the safety and soundness of the Bank to

deal with those kinds of risks.

So I would hope that we give due consideration to the possibility of including in any new AMA rule possibly the implications for the balance sheet in terms of the need to assess and establish retained earnings appropriate to risks.

CHAIRMAN KORSMO: I know based on earlier discussions we have had that the Office of Supervision and the Office of General Counsel have looked at moving ahead on some item whereby we could deal with the retained earnings issue. The Office, for example, just issued the recent advisory on this item.

It occurs to me, as it clearly has to you, that this might be an appropriate vehicle for doing that. Let's revisit this item, let's look into it, possibly, including provisions dealing with retained earnings.

Mr. Intrater.

MR. INTRATER: Just a point that we ought not to overlook about the proposed withdrawal document. It does provide that the comment

letters received on the proposed rule will be incorporated into --

CHAIRMAN KORSMO: Into future comments.

MR. INTRATER: -- into the future public record.

CHAIRMAN KORSMO: Thank you for pointing that out so that gets on the record. I appreciate that.

Is there any other discussion of the motion?

Any other discussion of the motion?

Seeing none, the question is on the withdrawal of the proposed rule regarding acquired member assets, and the secretary will please call the roll.

MS. GOTTLIEB: On the approval of the withdrawal of the proposed rule regarding acquired member assets, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. GOTTLIEB: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. GOTTLIEB: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. GOTTLIEB: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. GOTTLIEB: Chairman Korsmo?

CHAIRMAN KORSMO: Aye. The motion is carried, and the proposed rule regarding acquired member assets is withdrawn.

The fourth item on our agenda is consideration of the fiscal year 2004 budget for the Federal Housing Finance Board. I believe this is a sound budget on which directors have provided valuable input, and I think we can be pleased with the final result.

Pleased especially because the budget represents the continuing emphasis on improving the Finance Board's ability -- I should say our continuing emphasis on improving the Finance Board's ability to supervise and regulate the Federal Home Loan Banks for safety and soundness.

The total agency budget request for fiscal year 2004 is approximately \$31 million, a \$4

million increase over the current year. Now it is not often you will hear me speak warmly about higher budgets, but when it comes to safety and soundness, I think we will all agree that we welcome additional resources.

The proposed budget contains a \$4.3 million increase related to the continued strengthening of the Office of Supervision. Fourteen new positions are budgeted for, plus new, more powerful financial risk models and programming support.

We can look at this another way. In the current fiscal year, fully 67 percent of the Federal Housing Finance Board's total budget goes directly to the Office of Supervision, or to its support.

In the proposed budget that figure rises 10 percent, to 77 percent of the agency's budget that will be devoted to supervision. That is a notable increase.

A similar emphasis is reflected in the staffing numbers for the Office of Supervision.

This year's supervision accounts for 52 percent of the agency's personnel. The proposed budget increases that percentage to 62 percent, and I might point out that includes all of us and our immediate staff, which tends to have an impact on budget totals, particularly budget and staffing totals, particularly in an agency this size.

Combined with the new, more rigorous approach we have taken to examinations, these increased resources will enable the Finance Board to do the job that Congress created us to do -- that is, to ensure that the 12 Federal Home Loan Banks are operating in a safe and sound manner.

Again, thank you to my colleagues for their involvement in the budget process, and our shared commitment to strengthening the Finance Board's safety and soundness capabilities.

Judith Hofmann, the director of our Office of Management, and John Waters, our budget officer, are here to answer any questions any member of the Board may have about the budget proposal.

So, Judith, is there anything you wanted

to say by way of intro or --

MS. HOFMANN: No, Mr. Chairman. I think you summarized the budget very well. I would add on the staffing percentage for the Office of Supervision, if you exclude the Board of Directors, it's 71 percent of the staffing resources are devoted to the Office of Supervision.

CHAIRMAN KORSMO: Rather than the 62 I said?

MS. HOFMANN: The 62 is if you include the board.

CHAIRMAN KORSMO: If we're on there.

MS. HOFMANN: Uh-huh.

CHAIRMAN KORSMO: Are there any questions of either Ms. Hofmann or Mr. Waters?

Seeing none --

DIRECTOR MENDELOWITZ: Well, it's not a question. I just want to thank you for really doing an outstanding job with the budget. When we got our private briefing, I thanked you for what I thought was really a first-rate budget, and it's appropriate that when you do a good job, you should

get public recognition as well as described.

MS. HOFMANN: Thank you.

CHAIRMAN KORSMO: Thank you.

With that, can I call for a motion to approve the fiscal year 2004 budget?

DIRECTOR LEICHTER: I just wanted to --

CHAIRMAN KORSMO: Oh, excuse me, Director Leichter.

DIRECTOR LEICHTER: -- I would be remiss if I didn't express my appreciation both to Judith Hofmann and John Waters for their hard work and cooperation, and I think it's really helped the budget process to be more effective and to give us a better budget, and have it done in an open manner.

CHAIRMAN KORSMO: We have all spoken to what a great job you did in preparing it. Would anyone care to move that we adopt it?

DIRECTOR LEICHTER: I will so move.

CHAIRMAN KORSMO: Director Leichter has moved adoption of the fiscal year 2004 agency budget. Is there any discussion of the motion?

Is there any discussion of the motion?

Hearing none, I call the question on approval of the Federal Housing Finance Board fiscal year 2004 budget. The secretary will please call the roll.

MS. GOTTLIEB: On the approval of the fiscal year 2004 agency budget, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. GOTTLIEB: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. GOTTLIEB: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. GOTTLIEB: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. GOTTLIEB: Chairman Korsmo.

CHAIRMAN KORSMO: Aye. The budget for fiscal year 2004 is adopted.

Thank you again, Judith and John, and also Director Leichter, we thank you for your involvement in preparing the Inspector General portion of the budget. We appreciate the hard work

that went into this. It went so fast on the agenda, it seems like we're probably giving it short shrift. The reality is it's a very extensive project, it's hard work, and it has been well done, and we appreciate it.

Perhaps the fact that there were so few questions reflects exactly how good a job was done. So thank you. We appreciate it. I appreciate your hard work.

That concludes the open portion of our board meeting. Why don't we take a 15-minute recess. We will reconvene in closed session at 3 p.m.

[Whereupon, at 2:41 p.m., the open session of the Board meeting was concluded.]