

**FEDERAL HOUSING FINANCE BOARD (FHFB)****Statement of Regulatory Priorities**

The Finance Board's three major regulatory priorities for fiscal 1995 are: to ensure that the FHLBanks operate in a financially safe and sound manner; to ensure that they carry out their housing finance mission; and to address what governance authorities currently exercised by the Finance Board may be more appropriately exercised by the FHLBanks, thereby reducing their regulatory burden. Within these "super" priorities, the Finance Board has a number of 1994-95 priority projects, two of which are expected to result in significant regulatory actions (as defined in E.O. 12866) in fiscal 1995. However, it is important to note that the Finance Board will be without authority to take action on regulations or new policy initiatives until a quorum is restored to the Finance Board.

**FHLBank Safety And Soundness Priority**

The Finance Board's highest priority is to continue to ensure the safety and soundness of the FHLBank System. This priority entails the ongoing examination and supervision of the 12 FHLBanks and the FHLBank System's funding agent, the Office of Finance, and all matters relating to safety and soundness. While none of the projects within this priority is expected to result in a significant regulatory action in fiscal year 1995, the following interrelated matters are the most important components of this top priority for the agency:

1. The execution of the Finance Board-adopted strategic plan for on-site examination of the 12 FHLBanks and the Office of Finance;

2. The development and adoption by the Finance Board of the agency's examination handbook, which will articulate the policies and procedures to be followed by examiners in conducting examinations; and

3. In connection with a comprehensive project to review the capital standards and structure of the FHLBank System, further modifications to, and modernization of, the Financial Management Policy governing investments and other nonadvance financial activities of the FHLBank System—which modifications may include the development of a regulation in place of the existing policy.

**FHLBank Housing Finance Mission Priority**

The second major Finance Board regulatory priority is to continue to ensure that the FHLBanks carry out their housing finance mission. There are two significant regulatory actions through which the Finance Board intends to further this priority in fiscal year 1995: (1) the amendment of the Finance Board's existing Affordable Housing Program (AHP) regulation; and (2) the possible adoption of a new regulation or guidelines governing the FHLBanks' Community Investment Program (CIP). These two initiatives are described below.

The Finance Board also intends to implement this priority by amending its existing Community Support Requirements (Community Support) regulation to establish specific community support standards applicable to credit union and insurance company members. The Bank Act requires the Finance Board to adopt a regulation establishing standards of "community investment or service" that member institutions must meet in order to maintain continued access to long-term advances.

Under the existing Community Support regulation, the primary standard for evaluating the adequacy of a member's community support activities is the evaluation of the member's compliance with the Community Reinvestment Act of 1977 (CRA), as evidenced by the CRA rating assigned to the member by its Federal banking regulator. However, since the CRA does not apply to credit unions and insurance companies, these institutions do not receive CRA ratings. The amendment to the Community Support regulation is intended to address this issue. The Finance Board does not expect the amendment of the Community Support regulation to constitute a significant regulatory action.

**FHLBank Corporate Governance Priority**

The Finance Board's third major priority for fiscal 1995 is to reduce the regulatory burden on the FHLBanks by carrying out, to the extent permitted by current law, the recommendation regarding FHLBank System governance contained in a number of the congressional reports mandated by the Housing and Community Development Act of 1992, as well as in the strategic plan called "System 2000" developed jointly by the Finance Board and the System in 1993. The recommendation is

that the Finance Board's safety and soundness, regulatory, and supervisory functions be separated from the Finance Board's corporate governance and business oversight functions.

The Finance Board's corporate governance priority promotes the President's National Performance Review priorities in two ways. First, it will "cut red tape" by reducing the number and extent of regulations that control the FHLBanks' business decisions. Second, it will "put customers first" by allowing the FHLBanks more flexibility in carrying out the purpose for which they were created: to channel money from Wall Street to individual housing lenders all across America.

The Finance Board is currently seeking recommendations from the 12 FHLBanks as well as its own senior staff regarding which activities currently carried out by the Finance Board might better be done by the FHLBanks or by a to-be-created central governance authority. The Finance Board will study the recommendations and implement those changes it believes are appropriate and that can be carried out without statutory or regulatory change.

Clearly, the Finance Board would have to modify or eliminate some of its existing regulations in order to effect many of the changes. It is unlikely that any one of the regulatory changes that ultimately emanate from this priority will amount to a significant regulatory action. However, if all of the regulatory changes emanating from this priority were taken together, it is possible that they could amount to a significant regulatory action since the annual reduction of burden on the FHLBanks and the economy could amount to \$100 million or more.

**FHFB****PRERULE STAGE****204. COMMUNITY INVESTMENT PROGRAM****Legal Authority:**

12 USC 1422a; 12 USC 1422b; 12 USC 1430(i)

**CFR Citation:**

12 CFR 961

**Legal Deadline:**

None



**Abstract:**

Pursuant to section 721 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Public Law 101-73, 103 Stat. 423, the Federal Home Loan Banks (FHLBanks) must establish a Community Investment Program (CIP) which will provide funds through FHLBank advances (loans) to a FHLBank's member institutions at interest rates equal to interest rates on FHLBank consolidated bonds or notes having comparable maturity dates with the advances. These advances will be used by the member institutions to provide funding for community-oriented development projects or housing. These regulations will continue the commitment of the FHLBanks to community development lending.

**Statement of Need:**

The CIP has operated for 4 years without any clarifying regulations. During this time, operational issues have arisen. A regulation or guidelines may be necessary to address these issues in order to establish a more specific framework for the operation of the CIP.

**Summary of the Legal Basis:**

Section 2B(a)(1) of the Federal Home Loan Bank Act (Bank Act) authorizes the Federal Housing Finance Board (Finance Board) to promulgate regulations necessary to carry out the provisions of the Bank Act. See 12 U.S.C. 1422b(a)(1). Section 10(i) of the Bank Act requires the FHLBanks to establish a CIP, pursuant to the general statutory criteria set forth in section 10(i). The Finance Board therefore has the authority, under its general authority to issue regulations implementing the Bank Act, to issue clarifying regulatory standards governing the CIP.

**Alternatives:**

Because consideration of additional CIP guidance is in a very preliminary stage, including the issue of whether such guidance will be established by regulation or guidelines, the Finance Board has not yet analyzed the alternative approaches to the issues expected to be addressed in this initiative.

**Anticipated Costs and Benefits:**

Because the Finance Board has not yet analyzed the alternative approaches to the issues expected to be addressed in the CIP regulation or guidelines, the Finance Board is not yet able to identify the expected costs and benefits

of any such CIP regulation or guidelines.

**Risks:**

The CIP regulation or guidelines will not address issues of financial risk to the FHLBanks. The advances made by the FHLBanks through the CIP, like all FHLBank advances, are governed by the Finance Board's Advances regulation, which addresses the safety and soundness issues involved in making advances. Since advances made through the CIP are overcollateralized, there is a low magnitude of risk of loss to the FHLBanks in making such advances.

**Timetable:**

Next Action Undetermined

**Small Entities Affected:**

None

**Government Levels Affected:**

None

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**FINAL RULE STAGE**

**205. AFFORDABLE HOUSING PROGRAM**

**Legal Authority:**

12 USC 1422b(a)(1); 12 USC 1430(j)

**CFR Citation:**

12 CFR 960

**Legal Deadline:**

None

**Abstract:**

The Federal Housing Finance Board (Finance Board) issued a proposed rule revising its regulation governing the Affordable Housing Program (AHP) in order to simplify and clarify the AHP's requirements for the Federal Home Loan Banks (FHLBanks) and their members.

**Statement of Need:**

The Finance Board is revising its AHP Regulation in order to address

operational issues that have arisen during the 4 years the program has been in existence. The proposed AHP amendments will help enhance the AHP's compatibility with various State and Federal housing programs that provide funds in conjunction with AHP funds. In addition, the amendments would make the AHP more responsive to local low-income housing needs in each of the 12 FHLBank districts and increase efficiency in administration of the program.

**Summary of the Legal Basis:**

Section 10(j) of the Federal Home Loan Bank Act requires the Finance Board to promulgate regulations governing the AHP. See 12 U.S.C. 1430(j).

**Alternatives:**

During the development of the proposed AHP amendments, the Finance Board considered various alternative approaches to dealing with the operational issues that have arisen over the 4 years of the AHP's existence. In addition, the Finance Board will consider all alternatives suggested by the public during the notice-and-comment process. The Finance Board expects to address these alternatives in its final AHP regulation.

**Anticipated Costs and Benefits:**

At this time, it is not possible to quantify the expected costs and benefits of the revised AHP regulation. In general, the Finance Board expects the revised AHP regulation to reduce the FHLBanks' administrative costs of operating the AHP.

**Risks:**

The revised AHP regulation does not address issues of financial risk to the FHLBanks. The advances made by the FHLBanks through the AHP, like all FHLBank advances, are governed by the Finance Board's Advances regulation, which addresses the safety and soundness issues involved in making advances. Since advances made through the AHP are overcollateralized, there is a low magnitude of risk of loss to the FHLBanks in making such advances.

**Timetable:**

Action	Date	FR Cite
NPRM	01/10/94	59 FR 1323
NPRM Comment Period End	03/11/94	59 FR 1323
Final Action	10/00/94	
Final Action Effective	11/00/94	

**Small Entities Affected:**

None

**Government Levels Affected:**

None

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