

FEDERAL HOUSING FINANCE BOARD

BOARD OF DIRECTORS MEETING

OPEN SESSION

Washington, D.C.

Wednesday, February 20, 2008

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

1 PARTICIPANTS:

2 Board Members

3 RONALD A. ROSENFELD, Chairman

4 BRIAN MONTGOMERY, Director

5 GEOFFREY BACINO, Director

6 ALICIA R. CASTANEDA, Director

7 ALLAN I. MENDELOWITZ, Director

8 SHELIA WILLIS, Secretary

9 Also Present

10 CHRISTINA MURADIAN

11 THOMAS JENNINGS

12 STEPHEN M. CROSS

13 NEIL R. CROWLEY

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1 P R O C E E D I N G S

2 (10:00 a.m.)

3 CHAIRMAN ROSENFELD: Good morning  
4 everyone. I call this meeting of the Board of  
5 Directors of the Federal Housing Finance Board to  
6 order. Today we will have an opening session  
7 followed immediately by a closed session where the  
8 Board will receive updates of examination and  
9 supervisory findings. We now need to vote to  
10 approve closing the latter portion of today's  
11 meeting as required by the Sunshine Act and  
12 Finance Board regulations. Since the closed  
13 portion of today's meeting will contain sensitive  
14 and confidential bank examination information, I  
15 would ask for a motion to seal the transcript of  
16 this portion of the meeting. Director Montgomery?

17 DIRECTOR MONTGOMERY: Mister Chairman,  
18 after coming to these meetings for 2-1/2 years I  
19 understand it's finally my turn to make this  
20 motion. Thank you. I move to close the portion  
21 of today's meeting in which we will receive  
22 updates of examination and supervisory findings.

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1 And further, that we determine that the record and  
2 transcript of this closed portion of the meeting  
3 be kept confidential.

4 CHAIRMAN ROSENFELD: Thank you for the  
5 motion. Is there any discussion on the motion?  
6 Do I have a second?

7 DIRECTOR CASTANEDA: Second.

8 CHAIRMAN ROSENFELD: Thank you, Director  
9 Castaneda. Will the secretary please call the  
10 roll?

11 MS. WILLIS: On the item before the  
12 Board, Director Bacino, how do you vote?

13 DIRECTOR BACINO: Yes.

14 MS. WILLIS: Director Castaneda?

15 DIRECTOR CASTANEDA: Yes.

16 MS. WILLIS: Director Mendelowitz?

17 DIRECTOR MENDELOWITZ: Yes.

18 MS. WILLIS: Director Montgomery?

19 DIRECTOR MONTGOMERY: Yes.

20 MS. WILLIS: Chairman Rosenfeld?

21 CHAIRMAN ROSENFELD: Yes. The motion is  
22 carried and the subsequent portion of the meeting

1 will be closed and the transcript will remain  
2 closed and confidential. Thank you.

3 Now let us turn to the public portion of  
4 today's meeting. We will be considering a request  
5 by the Federal Home Loan Bank of Seattle regarding  
6 amendments to the bank's capital structure plan.  
7 Who will be making the presentation?

8 MS. MURADIAN: I will be. Christina  
9 Muradian.

10 CHAIRMAN ROSENFELD: Thank you. Go  
11 ahead.

12 MS. MURADIAN: Good morning. The  
13 Federal Home Loan Bank of Seattle is requesting  
14 the Finance Board approve two amendments to its  
15 previously approved capital structure plan. The  
16 proposed amendment is to increase the upper end of  
17 the range for the member advance stock purchase  
18 requirement from 4-1/2 percent to 6 percent of the  
19 outstanding principal balance advances. The  
20 bank's advance requirement currently is set at the  
21 top of the range and therefore the bank is not  
22 able to increase the advance requirement any

1 further if necessary. The Finance Board  
2 previously approved 6 percent as the upper end of  
3 the range in the capital plans of five other  
4 federal home loan banks. Since the Seattle bank  
5 will be required to continue to meet its capital  
6 requirements under the proposed amendment and may  
7 use the authority as a target of a higher capital  
8 ratio, we have no safety and soundness concerns  
9 with this request.

10 The second change the bank is proposing  
11 is to modify the provision that provides for the  
12 transfer of excess capital stock. The bank's  
13 current plan limits transfer of excess capital  
14 stock to transfers to affiliated members. The  
15 proposed amendment will have a transfer of excess  
16 stock at par to any member of the bank whether or not  
17 affiliated with the transferor. Six federal home  
18 loan banks have provisions in their approved  
19 capital plans that allow for the transfer of  
20 excess stock between nonaffiliated members. The  
21 proposed change has not raised safety and  
22 soundness concerns since transfer authority will

1 be at the bank's option and transfers are expected  
2 to be limited in size and volume. We recommend  
3 approval of the bank's request to change the upper  
4 end of the advance requirement range to 6 percent  
5 and to allow the transfer of excess stock between  
6 affiliated members.

7 CHAIRMAN ROSENFELD: Thank you. Do any  
8 of the Board members wish to comment?

9 DIRECTOR CASTANEDA: I just want to  
10 clarify one thing. In similar places the  
11 memorandum notes that staff expects that actual  
12 transfers under this authority be granted would be  
13 few and minimal. That is on the bank's  
14 representations. I'm talking about excess. I  
15 just wanted to clarify something. You don't mean  
16 to suggest your recommendation that we approve  
17 this amendment is based on the amount of transfers  
18 being in fact minimal. In other words, how would  
19 your recommendation change if at all if the  
20 inter-member transfers of excess stock turn out to  
21 be significant? Would that change your  
22 recommendation?

1                   MS. MURADIAN: Our recommendation is  
2                   that, yes, the bank has stated that the transfers  
3                   will be limited and based on history there have  
4                   been very few. In the 3 years since the bank has  
5                   been unable to repurchase stock this is the first  
6                   request from a nonaffiliated member.

7                   MR. CROSS: I don't believe our  
8                   recommendation would have been different in that  
9                   the discretion to allow the transfer remains with  
10                  the bank so that if it created a potential problem  
11                  the bank would have the sufficient tools to deal  
12                  with it. But fundamentally this is a practice  
13                  that exists at other banks and absent an  
14                  indication that it would create safety and  
15                  soundness problems, and we didn't see that, we  
16                  felt that we would present the Board with the  
17                  opportunity to accept an existing practice.

18                  In terms of your specific question, I  
19                  can't say that we ran numbers to determine whether  
20                  there was some upper limit that would cause us  
21                  particular concern. But because the transfers run  
22                  in some sense through the bank, we felt that the



1 bank had the tools necessary that if ever the  
2 transfers got to a size that it would create an  
3 issue that we did not anticipate or the bank had  
4 not previously anticipated, they could deal with  
5 that in that set of circumstances.

6 DIRECTOR CASTANEDA: The other question  
7 I wanted to ask you is have you heard anything  
8 from the bank with respect to the excess stock  
9 pool and the amendment that we approved back in  
10 October 2006? I think the sunshine period was 2  
11 years and is going to expire this year.

12 MS. MURADIAN: The pool will expire in  
13 October of this year but right now the bank has  
14 suspended the excess stock pool so members are not  
15 taking down advances right now and using the  
16 excess stock pool and have sort of capped out on  
17 the pool.

18 DIRECTOR CASTANEDA: When did this  
19 happen?

20 MS. MURADIAN: Just very recently.  
21 Within the last 4 weeks probably.

22 DIRECTOR CASTANEDA: Thank you,

1 Christina.

2 CHAIRMAN ROSENFELD: Any other comments?

3 DIRECTOR MENDELOWITZ: Thank you, Mister  
4 Chairman. Is this provision that permits the  
5 transfer of stock among unaffiliated institutions  
6 something that would primarily benefit the large  
7 members in the home loan bank system or is it  
8 something that primarily would benefit the small  
9 community financial institutions?

10 MS. MURADIAN: The provision in the  
11 capital plan would be open to all members. It's  
12 been between small affiliated members to date,  
13 rarely used, and going forward they've got this  
14 one transaction on the table that is small.

15 MR. JENNINGS: I would think that the  
16 members who wanted to exercise certain tax  
17 advantages are the ones who are going to benefit  
18 from this whether it's large or small. If they  
19 want to offset a capital loss at a particular time  
20 and the bank is not repurchasing the stock then  
21 they might find somebody to transfer it to so that  
22 they can offset against taxes.

1                   DIRECTOR MENDELOWITZ: It's clearly the  
2                   type of transaction that requires agreement of  
3                   both a buyer and seller. In the case here, the  
4                   seller is motivated because as you point out there  
5                   may be tax benefits. Members hold stock  
6                   dividends, the basis is significantly less than  
7                   100 because of the way the tax basis gets computed  
8                   when you have stock dividends. If the member were  
9                   to suffer a loss selling some stock because the  
10                  tax basis wasn't 100 gives them a way in effect of  
11                  offsetting that loss and gain both a tax advantage  
12                  and financial statement advantage.

13                  The reason why I asked about large  
14                  versus small is that when I thought about it,  
15                  these types of transactions are a little hard to  
16                  put together because you have to have both a buyer  
17                  and a seller and you have to get the approval of  
18                  the bank itself. It seems to me that it's the  
19                  type of system that probably would benefit small  
20                  institutions with small amounts of capital to be  
21                  traded rather than large ones. I think it would  
22                  be a lot harder for a large institution who wanted

1 to offload hundreds of millions of dollars in  
2 capital to find buyers than it would be for a  
3 small institution who wants to offload a couple of  
4 million dollars for opportunistic reasons to find  
5 a buyer. So I would say generally the impression  
6 I had was that when it comes to an operational  
7 issue this is something that would probably be a  
8 benefit for all small institutions occasionally  
9 rather than for large institutions.

10 DIRECTOR CASTANEDA: But it could happen  
11 between Bank of America and WAMU, right?

12 MR. MENDELOWITZ: It could. That's correct.  
13 It could. Absolutely. There's nothing that  
14 prevents it, but moving large amounts around I  
15 think is probably operationally more difficult  
16 than small amounts.

17 The other question is is there an equity  
18 issue here? Right now the Seattle bank isn't  
19 repurchasing stock and if a party takes advantage  
20 of this opportunity to sell some stock or transfer  
21 some stock to another member, the bank that sells  
22 the stock is getting the functional equivalent of

1 a repurchase. If you think about these transfers,  
2 it's the equivalent of having -- because it needs  
3 bank approval and it's at par, the seller in  
4 effect could sell it to the home loan bank and the  
5 home loan bank could see it to the second member  
6 which is cutting the home loan bank out of it.

7 But if the bank currently isn't  
8 repurchasing excess stock, does this in  
9 fact create an equity issue, that some  
10 people can get the equivalent of a stock  
11 repurchasing during a period when there are no  
12 stock repurchases?

13 MR. CROWLEY: Director Mendelowitz, I  
14 don't know that there's an equity issue there.

15 DIRECTOR MENDELOWITZ: Equity as in  
16 fairness, not equity as in capital.

17 MR. CROWLEY: What you have is a member  
18 on the one hand that needs to purchase additional  
19 stock either for advances or because the  
20 membership stock purchasing requirement has  
21 increased. On the other hand, you're going to  
22 have some number of members with excess stock

1       which otherwise the bank could repurchase. So the  
2       purchasing member has a need for the stock but may  
3       not be inclined to buy it from the bank.

4                   DIRECTOR MENDELOWITZ: The purchasing  
5       member should be indifferent as to the source of  
6       the capital. The purchasing member shouldn't care  
7       whether they buy it from another member or from  
8       the bank because the transaction from their side  
9       is the same, they pay \$100 per share. This thing  
10      is of special benefit to the seller and so I'm  
11      asking whether there's a fairness issue here  
12      because it provides a mechanism for some members  
13      to get the functional equivalent of a repurchase  
14      when the bank in fact is not repurchasing capital.

15                   MR. CROWLEY: I don't know that there's  
16      any inequity here. Again, you have to have a  
17      willing party on each side of the transaction and  
18      all repurchases and sales, all transfers have to go  
19      through the bank. You cannot have a member-to-member  
20      transaction without the bank being involved.

21                   DIRECTOR MENDELOWITZ: The fairness  
22      comes into it, for example, did the bank post a

1 notice on its website that same member X wants to  
2 purchase \$2 million in capital from somebody else.  
3 Does anybody want to put it forward? Maybe \$50  
4 million or \$100 million might be forward so that  
5 if someone is able to sell \$2 million without  
6 going through some public notification process,  
7 somebody could raise a fairness issue.

8 MR. CROWLEY: I don't know the details  
9 of whether the bank has specified the details of  
10 how that would work.

11 MR. CROSS: As a theoretical matter  
12 there is a potential for that issue to arise and  
13 it's something that we should monitor in terms of  
14 the bank's actual implementation of the policy.

15 DIRECTOR MENDELOWITZ: Thank you.

16 CHAIRMAN ROSENFELD: Any others?

17 DIRECTOR BACINO: Just one question,  
18 Mister Chairman. Christina, a lot of the other banks  
19 that have capital plans have similar provisions in  
20 their plans for this as well don't they?

21 MS. MURADIAN: Yes. The transfer of  
22 stock?

1 DIRECTOR BACINO: Yes.

2 MS. MURADIAN: Yes, six other banks have  
3 identical provisions that allow transfers between  
4 nonaffiliated members.

5 DIRECTOR MENDELOWITZ: Have those  
6 provisions have been exercised?

7 MS. MURADIAN: From what I understand,  
8 they are very rarely exercised.

9 CHAIRMAN ROSENFELD: If there's nothing  
10 else, I will accept the motion to approve the  
11 amendment to the bank's capital structure plan.  
12 Do you care to make a motion?

13 DIRECTOR BACINO: I move to amend the  
14 capital structure plan for the Federal Home Bank  
15 of Seattle as laid out by staff.

16 CHAIRMAN ROSENFELD: Do I have a second?

17 DIRECTOR MENDELOWITZ: Second.

18 CHAIRMAN ROSENFELD: Thank you, Director  
19 Mendelowitz. Will the secretary please call the  
20 roll?

21 MS. WILLIS: On the item before the  
22 Board, Director Bacino, how do you vote?

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1 DIRECTOR BACINO: Yes.  
2 MS. WILLIS: Director Castaneda?  
3 DIRECTOR CASTANEDA: Yes.  
4 MS. WILLIS: Director Mendelowitz?  
5 DIRECTOR MENDELOWITZ: Yes.  
6 MS. WILLIS: Director Montgomery?  
7 DIRECTOR MONTGOMERY: Yes.  
8 MS. WILLIS: Chairman Rosenfeld?  
9 CHAIRMAN ROSENFELD: Yes. The motion is  
10 adopted. This ends the open session of the  
11 meeting. We will reconvene in closed session in 3  
12 minutes.

13 (Whereupon, at 10:15 a.m., the  
14 PROCEEDINGS were adjourned.)

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