

TRANSCRIPT OF PROCEEDINGS

In the Matter of:

OPEN MEETING

Pages: 1 through 39

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FEDERAL HOUSING FINANCE BOARD

In the Matter of:

OPEN MEETING

Wednesday,
September 26, 2001

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

The hearing in the above-entitled matter was
convened, pursuant to Notice, at 10:13 a.m.

BEFORE: J. TIMOTHY O'NEILL
Chairman, Federal Housing Finance Board

BOARD MEMBERS:

JOHN C. WEICHER
FRANZ S. LEICHTER
ALLAN I. MENDELOWITZ

STAFF:

JAMES L. BOTHWELL
CHARLES E. McLEAN
ARNOLD INTRATER
SHARON LIKE
MELISSA ALLEN
SCOTT L. SMITH
NEIL R. CROWLEY
JOSEPH McKENZIE
THOMAS JOSEPH

C O N T E N T S

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AGENDA ITEM

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Opening Remarks

J. Timothy O'Neill
Chairman, Federal Housing Finance Board

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P R O C E E D I N G S

(9:10 a.m.)

CHAIRMAN O'NEILL: I want to welcome the fellow board members and staff and a special returning welcome to John Weicher, who is the HUD secretary's designee and a former Finance Board member from the Bush One days.

Before starting, I would like to acknowledge the horrible events of September 11th and more specifically, the loss of a personal friend and former chair of the Federal Home Loan Bank of New York, Neil Levin. Neil was the chairman of the Federal Home Loan Bank of New York from 1988 to 1994 and most recently was the executive director of the Port Authority of the State of New York. He was well respected, well liked, and will be sorely missed.

So I would like to take a moment of silence to pause in memory of Neil and the thousands of other men and women lost on September 11th.

(Pause.)

CHAIRMAN O'NEILL: I would also like to mention that the Federal Home Loan Bank of New York's employees and four of our Finance Board examiners were thankfully able to evacuate the building and were unharmed. The Federal Home Loan Bank of New York building was destroyed, but our hats are off to Al DelliBovi and his staff, who didn't miss a beat and had the bank operations up and running from an

1 alternative site without a hitch. Their superb management
2 system passed a formidable and unfortunate test.

3 These terrorist attacks did not prevent our System
4 from continuing to do its business in providing liquidity to
5 its more than 78,000 members. The true colors of the System
6 were shown even during and after the attacks, when our total
7 funds raised on September 12th to almost \$20 billion and
8 going up to approximately \$30 billion in the days following.

9 The System has been fulfilling its mission of
10 providing liquidity for housing finance and community
11 lending and community development for 69 years with no
12 interruption, and we will not allow it to be deterred from
13 this vital function by, as President Bush called them, these
14 faceless cowards.

15 I guess I want to pause at this point. If any of
16 the other Board members want to say anything at this time.

17 MR. MENDELOWITZ: Thank you, Mr. Chairman. I
18 obviously would also like to add my voice to yours and the
19 others who have expressed their outrage and sadness over the
20 terrible losses that took place on September 11th and,
21 secondly, join you in expressing my great relief and
22 appreciation for the fact that all of the staff from the
23 Federal Home Loan Bank of New York as well as our four
24 examiners came through the events safe and sound. That
25 outcome was no accident, and I would like to recognize the

1 far-sighted leadership provided by President Al DelliBovi of
2 the New York Bank.

3 At the time of the 1993 bombing of the World Trade
4 Center, the Federal Home Loan Bank of New York was on the
5 103rd floor of number One World Trade Center. After the
6 1993 bombing, President DelliBovi drew the appropriate
7 conclusions as to what was necessary to take better care of
8 the safety of his people and made the decision to move the
9 Bank from the 103rd floor of the number One building to one
10 of the low-rise buildings, number Seven World Trade Center.

11 Because of that decision, we can all be grateful
12 that all of the staff of the Finance Board and the Home Loan
13 Bank of New York came through this safely. People do make
14 history, and people's decisions and leadership do make a
15 difference. And at the same time we're thankful for the
16 lack of immediate losses to our immediate family. I do want
17 to recognize President DelliBovi and the absolutely critical
18 role that this decision made in that fateful outcome.

19 MR. LEICHTER: Mr. Chairman, let me first say it's
20 nice to see you sitting in this chair. I know you've served
21 the System well in so many different capacities, and I know
22 it must give you great satisfaction to be sitting here. I'm
23 delighted.

24 Let me also turn to my colleague on the right, who
25 was our Chairman for a number of months.

1 MR. MENDELOWITZ: Six.

2 MR. LEICHTER: -- six months -- and thank him for
3 his dedicated and skillful service as Chairman, and it's
4 very nice to welcome as seasoned and knowledgeable a hand as
5 John Weicher.

6 These obviously are difficult times. They are
7 painful times. As Chairman O'Neill pointed out, the System
8 was particularly hit because of the loss sustained by the
9 New York Bank. And I can only join my colleagues in
10 expressing my admiration for the work that President Al
11 DelliBovi and his staff did in having the System working
12 really without any interruption at all.

13 It's just remarkable, and we are all, of course,
14 ever so grateful that there was no loss of life of anybody
15 at the New York Bank and the examiners up there at that
16 time. We obviously grieve very much for those who did lose
17 their lives. I think all of us are very saddened by these
18 events but more determined than ever in what little role we
19 have to play to see that we do our work and get our job
20 done.

21 I also want to join Chairman O'Neill in just for a
22 moment expressing my sorrow at the loss of Neil Levin. I
23 knew Neil Levin. I was a member of the New York State
24 Senate when he was nominated to be the Superintendent of
25 Banks for the State of New York. I was on the committee

1 that had to confirm him, and since he knew I was interested
2 in banking, he came to see me, and I was immediately struck
3 by what an extremely bright and able person he was, and we
4 worked together while he was the Superintendent of Banks.

5 He truly was an extraordinary person, and it's a
6 great loss personally, and it's a loss for the financial
7 community because of the work that he had done. He will be
8 sorely missed. And maybe we can follow a practice which we
9 used to do in the legislature when a member of the
10 legislature died in office or a former member died, we would
11 adjourn in their memory, and maybe we can adjourn when our
12 meeting is over in the memory of Neil Levin.

13 CHAIRMAN O'NEILL: We will do that.

14 MR. WEICHER: Thank you, Chairman O'Neill, for
15 that kind introduction. It's a pleasure to be back as the
16 Secretary's representative on the Federal Housing Finance
17 Board and, among other things, see a number of old friends
18 and former colleagues from various places over the years.

19 When I served on the Board before, about nine
20 years ago, I was the designee of Secretary Kemp, and I
21 succeeded his previous designee, who was Deputy Secretary Al
22 DelliBovi, and I had worked with the deputy secretary,
23 providing staff support for him as he served on this Board.

24 I certainly agree wholeheartedly with Chairman
25 O'Neill's comments about the terrorist attacks. It is an

1 extraordinary sight to look out your office window and see
2 smoke rising from the Pentagon and to see no planes taking
3 off and landing from National Airport. We had a number of
4 people, a number of HUD employees, in the World Trade
5 Center, all of whom are safe, employees of the inspector
6 general's office and employees of the Office of Multi-family
7 Housing Assistance Restructuring, and our New York offices
8 in the Javitz Building a few blocks away.

9 The day after the attack, Secretary Martinez had a
10 meeting of the principal staff and said that the purpose of
11 the terrorists was in part to close down the government of
12 the United States, and we dishonor the country, and we
13 dishonor the people who died if we let them close down the
14 government of the United States, so we should go back to
15 work. And we did, and we have, and this is part of what we
16 are doing.

17 And, of course, the Federal Home Loan Bank of New
18 York went back to work very quickly without missing a beat,
19 from the information that I received. And we at the Federal
20 Housing Finance Board are also going back to work and doing
21 the job that the citizens of the country want us to do, and
22 we will go on doing that job.

23 CHAIRMAN O'NEILL: I guess now I will turn it over
24 to Jim Bothwell, the managing director, for the first item
25 on our agenda.

1 MR. BOTHWELL: Thank you very much, Chairman
2 O'Neill, and good morning, and good morning to you, Director
3 Leichter, Director Mendelowitz, and Secretary Weicher.

4 As you are aware, it has been nine months since
5 the Board of Directors of the Finance Board had its last
6 public meeting, and although much work has been done during
7 this interim period by the use of notation of Board votes,
8 staff actions, and other means, I must say it's great to
9 have the Board of Directors conducting its business in
10 regularly scheduled public meetings once again. So welcome
11 back everyone.

12 On behalf of the entire Finance Board staff, I
13 especially wish to welcome Director Mendelowitz to the first
14 Board meeting, although as Franz pointed out, Allen did
15 serve very ably as this Chair for sixth months. And
16 strictly speaking, welcome back, Secretary Weicher, to the
17 Board.

18 If you would allow me just a personal note, I have
19 known both Allen Mendelowitz and John Weicher for several
20 years throughout my career in Washington. It's personally a
21 real pleasure to be entering a new professional relationship
22 with both of these gentlemen.

23 Gentlemen, as you are aware, there are four items
24 on today's agenda: the adoption of a final rule amending
25 the Affordable Housing Program or AHP regulations; the

1 adoption of a final rule amending the Community Investment
2 Cash Advance Programs, or CICA regulations; a waiver to
3 extend the implementation date for new limits on Federal
4 Home Loan Bank extension of unsecured credit and minimum
5 liquidity requirements; and last, but certainly not least,
6 the adoption of a solicitation of public comment on a whole
7 constellation of issues that are being raised by the
8 continued consolidation in the banking industry, the ever
9 increasing amounts of business activity by members of
10 Federal Home Loan Banks that cut across the geographic
11 boundaries of the 12 Federal Home Loan Bank districts, and
12 the petitions that have been received from three Federal
13 Home Loan Banks that are requesting the Finance Board
14 approve applications for memberships in their Banks from
15 depository institutions that are already members of other
16 Federal Home Loan Banks. This is the so-called
17 multiple-membership issue.

18 I'm sure that we all look forward to this
19 discussion, but for now I would like to ask Charles McLean,
20 deputy director in the Office of Policy, Research and
21 Analysis, to present the first two agenda items for your
22 consideration. Charles?

23 MR. McLEAN: Thank you, Jim. Good morning, Mr.
24 Chairman and directors. The staff is before you to present
25 amendments to the Finance Board's regulation governing the

1 operation of the Affordable Housing Program, the AHP. The
2 Finance Board's existing AHP regulation underwent a
3 significant revision in August of 1997 and became effective
4 on January 1, 1998. Since 1998, various amendments have
5 been made to the AHP regulation to clarify AHP requirements
6 and improve the operation and effectiveness of the program.

7 During the 2000 calendar year, the Federal Home Loan Bank
8 President's Conference transmitted to the Finance Board a
9 number of additional proposed regulatory enhancements
10 intended to further improve the operation of the AHP.

11 After review and analysis of these and other
12 recommendations in May, the Finance Board published a
13 proposed rule requesting comment on certain proposed
14 amendments. The proposed rule's 30-day comment period
15 closed on June 11th. Twenty-three comments were received.
16 The comments were generally supportive of the amendments.

17 The staff recommends that the Board adopt the
18 final rule contained in the Board books, which is generally
19 consistent with the amendment set forth in the proposed
20 rule. The key amendments are the following: One, increase
21 the maximum amount of AHP funds that may be set aside
22 annually in the aggregate under the Federal Home Loan Bank
23 home ownership set-aside programs to the greater of \$3
24 million or 25 percent of the Bank's annual required AHP
25 contribution.

1 Currently, a Federal Home Loan Bank may allocate
2 the greater of \$1.5 million, or 15 percent of its annual
3 required AHP contribution, to provide funds to members
4 participating in the Federal Home Loan Bank's home ownership
5 set-aside program. The amendment in part reflects the
6 experience of the past two years that the demand for home
7 ownership set-aside funds for low- and moderate-income
8 families is such that those Federal Home Loan Banks with
9 home ownership set-aside programs have been oversubscribed
10 within the first three to seven months of the program year.

11 This amendment would also make it easier for the AHP to
12 help meet housing needs in rural and Native American areas
13 and to facilitate member participation in the AHP.

14 A second amendment is that of eliminating the
15 requirement that counseling fees paid with AHP funds and
16 set-aside programs be limited based on members' counseling
17 expenses paid in previous years. This amendment would help
18 assure that home buyers get counseling and would make the
19 requirements governing the use of funds for the set-aside
20 programs be the same as those under the competitive program.

21 The third amendment is to permit not only housing
22 representatives, but also members drawn from community and
23 not-for-profit organizations actively involved in providing
24 or promoting community lending in a Bank's district to serve
25 on the advisory councils. This amendment would allow the

1 Federal Home Loan Banks to add community and
2 economic-development expertise to the councils, enabling
3 them to address broader community needs consistent with the
4 Federal Home Loan Bank's housing-finance mission.

5 The fourth amendment would be that of removing the
6 requirement for annual project sponsored certifications to
7 the member and the Federal Home Loan Bank on household
8 income eligibility for owner-occupied projects. This
9 amendment eliminates a redundant certification because
10 project sponsors provide documentation of household income
11 eligibility throughout the year as households are funded.

12 Number five would be that of removing the
13 requirements for project owner certification to the member
14 and member certifications to the Bank on services and
15 activities commitments, tenant income and rent-targeting
16 commitments, and project habitability within the first year
17 of completion of a rental project. This amendment would
18 eliminate redundant certification requirements because the
19 project owner also provides a certification to the
20 respective Federal Home Loan Bank.

21 Six is that of making the outlay adjustments of
22 AHP fund requirements applicable to any reduction or
23 increase in the amount of AHP subsidy approved for a
24 project, regardless of whether a direct subsidy writedown is
25 involved. This amendment would provide the Federal Home

1 Loan Banks with additional flexibility to fund subsidy
2 increases for ongoing projects that qualify for
3 modifications at the time funding is needed by allowing the
4 project modifications to be funded with funds from the next
5 year's AHP allocation.

6 The seventh amendment is clarifying that any AHP
7 home ownership set-aside funds that are not committed under
8 the set-aside programs by the end of each year and that are
9 not needed to fund remaining projects under the AHP
10 competitive program in that year may be carried over to the
11 next year's set-aside program at the Federal Home Loan
12 Bank's discretion. This provides the Federal Home Loan
13 Banks with additional flexibility to manage their AHP
14 resources.

15 The staff stands ready to respond to any questions
16 you might have about any of these amendments.

17 CHAIRMAN O'NEILL: Thank you very much, Charles.
18 Based on my long-term association with the Finance Board,
19 first as a staff member, then as a Board member, and now as
20 Chairman, I have always believed that the Affordable Housing
21 Program was the crown jewel of the Federal Home Loan Bank
22 System. And in this regard, I am pleased that the Board
23 will be acting on the publication of a final rule that makes
24 common-sense reforms to the Affordable Housing Program
25 regulations to streamline the monitoring requirements and

1 further enhance program implementation. In particular, the
2 final regulation will increase the maximum amount allowable
3 under the home ownership set aside.

4 I am also pleased, that on June 6, 2001, the
5 Finance Board conducted an Affordable Housing Program
6 Workshop for the Federal Home Loan Banks and the
7 community-development officials to discuss ongoing policy
8 issues of the Federal Home Loan Bank System's Affordable
9 Housing Program. I want to commend my fellow Board member,
10 Franz Leichter, who organized and chaired the workshop.
11 Based on the findings of this workshop, I am confident that
12 the Board will consider further changes to improve the
13 Affordable Housing Program.

14 Finally, I want to acknowledge the Bush
15 Administration's formidable housing agenda as reflected in
16 this year's federal budget. This past August, I
17 communicated to the Federal Home Loan Bank presidents,
18 asking them to review the proposals while noting that there
19 are significant opportunities and potential for the Federal
20 Home Loan Banks to support these initiatives through their
21 statutory mandated activities of making low-cost advances to
22 their member institutions. Any other Board members that
23 wish to be heard before we vote on this one?

24 MR. LEICHTER: Thank you, Mr. Chairman. I just
25 want to say that I'm pleased that we are at the point of

1 adopting these changes in the AHP regulation, and as
2 Chairman O'Neill pointed out, we are considering other
3 changes. Our aim and purpose is to make the program more
4 efficient, simpler to administer, to achieve, and commit
5 greater flexibility, all with the purpose of maximizing our
6 AHP dollars. I think these regulations go in that
7 direction, and we will continue to work to achieve that
8 goal.

9 CHAIRMAN O'NEILL: Is there a Board member that
10 wants to move the staff?

11 MR. MENDELOWITZ: I would like to make one
12 additional comment.

13 CHAIRMAN O'NEILL: Okay.

14 MR. MENDELOWITZ: I join the Chairman and the
15 other members of the Board in expressing satisfaction that
16 we're adopting regulatory changes to the program to help to
17 make it easier to administer and more effective. But at the
18 workshop on the 6th of June that Chairman O'Neill
19 referenced, we heard a lot of good ideas about how to make
20 further improvements in the program.

21 Following that workshop, which I thought was
22 unbelievably successful and for which we are all greatly
23 indebted to Director Leichter for chairing and organizing, I
24 sent an e-mail in my capacity as Chairman to the staff who
25 worked on this MNR and the workshop expressing my

1 appreciation for their hard work and satisfaction with the
2 successful outcome. But what I pointed out to them was at
3 this workshop what we demonstrated to our community was that
4 we have the capacity to listen to the concerns and ideas for
5 improving the program brought forth from our community.

6 Now our challenge was to demonstrate to the
7 Federal Home Loan Bank System that we not only can listen,
8 but we, in fact, can assimilate what we've learned and take
9 action. And so I look forward in the coming months to being
10 able to vote on additional regulatory modifications that
11 will improve the safety, the effectiveness, the efficiency
12 of the AHP program and reduce unnecessary burdens associated
13 with it.

14 So my admonition to the staff last June still
15 stands. So far, we have demonstrated that we can listen.
16 Now we have to demonstrate that we, in fact, can act on what
17 we have learned.

18 MR. WEICHER: Mr. Chairman, I just wanted to say I
19 had the opportunity to speak at the workshop on June 6th,
20 which was a great pleasure and a lot of fun, talking to
21 people who had been working on the Affordable Housing
22 Program. The program was mandated by FIRREA in 1989, and I
23 had the opportunity to help in the design phase of it 12
24 years ago. I do not think very many of us really expected
25 it to be as successful as it was. We certainly had hopes

1 for the program to do well, and we devoted a lot of
2 resources to doing the best we could, but I think it's fair
3 to say that the people who worked on it at the time would
4 not have anticipated it would have been as successful as it
5 has been. And I think the staff and the Boards over the
6 years deserve a great deal of credit for helping to make it
7 work better.

8 One final thing. I know the Secretary appreciated
9 your comments about the President's housing proposal and
10 communication to the Bank presidents. It was very kind and
11 helpful, I think.

12 CHAIRMAN O'NEILL: Okay. Can a Board member move.

13 MR. LEICHTER: So moved.

14 CHAIRMAN O'NEILL: Okay. A vote occurs on the
15 staff package on the Affordable Housing Program. All those
16 in favor say aye.

17 (A chorus of ayes.)

18 CHAIRMAN O'NEILL: Any opposed?

19 CHAIRMAN O'NEILL: The first issue is agreed to.
20 The next one.

21 MR. McLEAN: Thank you, Mr. Chairman. The staff
22 is now presenting amendments to the Finance Board regulation
23 governing the Community Investment Cash Advances, CICA,
24 programs. These amendments would make technical revisions
25 clarifying CICA program requirements and improving the

1 operation of CICA programs.

2 In 1998, the Finance Board adopted the final
3 regulation providing the Banks with parameters for the
4 establishment of CICA programs to facilitate and encourage
5 targeted community lending. In the course of implementing
6 CICA programs under the CICA reg, the Banks and Finance
7 Board staff have identified several technical issues, the
8 resolution of which would clarify CICA program requirements
9 and improve the effectiveness of the CICA program.

10 In July, the Finance Board published the proposed
11 rule requesting comment on proposed amendments to the CICA
12 regulation. The proposed rule provided for a 30-day comment
13 period, which closed on August 13th. The Finance Board
14 received five comments on the proposed rule, which generally
15 supported the amendments.

16 The staff recommends that the Board adopt the four
17 primary amendments that include clarifying that the Federal
18 Home Loan Banks may offer grants in addition to advances
19 under certain CICA programs. A number of the Federal Home
20 Loan Banks have asked for clarification regarding the use of
21 grants in addition to advances under certain CICA programs.

22 This amendment would clarify and specify the grant
23 authority and the regulation.

24 The second would be amending the definition of
25 median income for the area to include additional sources of

1 median income data that may be used to determine income
2 eligibility for projects and households funded under CICA
3 programs. The current CICA regulation uses the same median
4 income data sources as those adopted in the 1997 revised AHP
5 regulation. These sources are not sufficient for the Banks
6 to determine a median income for a neighborhood as defined
7 in the CICA regulation. Consequently, the amendment would
8 enable the Banks to obtain median income data from the
9 Federal Financial Institutions Examination Council, FFIEC,
10 or other public or private sources with the approval of the
11 Finance Board.

12 The third amendment would be providing a technical
13 clarification of the definition of housing projects. The
14 current CICA reg defines housing projects as projects or
15 activities that involve the purchase, construction, or
16 rehabilitation or predevelopment financing for housing
17 projects. The rule would clarify that housing projects
18 involving refinancing are also eligible projects for CICA
19 funding.

20 Finally, providing technical clarification of the
21 definition of geographically defined beneficiaries. The
22 current CICA regulation defines a geographically defined
23 beneficiary to include a project that is located in a
24 state-declared disaster area or qualifies for assistance
25 under another federal or state targeted economic-development

1 program approved by the Finance Board.

2 The amendment would clarify that it's not the
3 project itself, but rather the area in which the project is
4 located that must qualify for such targeted
5 economic-development assistance. The staff is once again
6 prepared to respond to any questions you might have about
7 these amendments.

8 CHAIRMAN O'NEILL: Does any Board member wish to
9 say anything about this one before we vote?

10 CHAIRMAN O'NEILL: Okay. Can I have a motion?

11 MR. WEICHER: So moved.

12 CHAIRMAN O'NEILL: Okay. The vote occurs on the
13 CICA staff proposed package. All those in favor, say aye.

14 (A chorus of ayes.)

15 CHAIRMAN O'NEILL: Any opposed?

16 (No response.)

17 CHAIRMAN O'NEILL: That one also is adopted.

18 MR. McLEAN: Thank you very much, Mr. Chairman.

19 CHAIRMAN O'NEILL: I will do at the end a lawyerly
20 proviso.

21 MR. BOTHWELL: Mr. Chairman, as I noted, the third
22 item on today's agenda is Board consideration of a waiver
23 that would extend the implementation date for the new limits
24 on Federal Home Loan Bank extension of unsecured credit and
25 minimum liquidity requirements until January 28, 2002. I've

1 asked Tom Joseph of the general counsel's office to present
2 this item for your consideration.

3 MR. JOSEPH: Mr. Chairman, members of the Board,
4 the staff is today recommending that the Board approve an
5 order delaying until January 28, 2002 the effective date for
6 the Federal Home Loan Banks to comply with the minimum
7 liquidity requirements of Section 932.8 of the Finance Board
8 rules and with the unsecured credit limits and the credit
9 extension reporting requirements of Section 932.9 of the
10 rules.

11 The order, as recommended for approval by the
12 staff, also specifically provides that the additional
13 liquidity requirements and the unsecured credit guidelines
14 and the Financial Management Policy will continue to apply
15 to the Federal Home Loan Banks until Section 932.8 and
16 Section 932.9 become effective. These regulations were
17 slated to take effect on October 1, 2001.

18 However, as you are aware, the Finance Board
19 recently proposed amendments to the unsecured credit rule,
20 which were published in the Federal Register on August 8,
21 2001. The comment period on these amendments did not close
22 until September 7, 2001.

23 In comments on the proposed credit provisions a
24 number of the Federal Home Loan Banks requested that the
25 effective date of Section 932.9 be delayed to give the Banks

1 sufficient time to conform their reporting and record-
2 keeping systems to the unsecured credit rule, as ultimately
3 adopted by the Finance Board in the current rule making.
4 The staff also believes that the recommended delay in the
5 effective day would assure that it has sufficient time to
6 review these comments on the proposed rule amendments and
7 prepare a final version of the rule for Finance Board
8 consideration.

9 In addition, because the liquidity requirements of
10 Section 932.8 and the unsecured provisions of Section 932.9
11 are related and were intended to take effect at the same
12 time, any delay in the effective date of 932.9 should also
13 be applied to Section 932.8. The staff does not believe
14 that the recommended delay in the effective date of these
15 regulations raises any safety and soundness concerns because
16 the Federal Home Loan Banks will remain subject to the
17 financial management policies, liquidity, and unsecured
18 credit guidelines until these rules become effective. We
19 will be glad to answer any questions on this matter at this
20 time.

21 CHAIRMAN O'NEILL: When do you think the staff
22 will be ready with the final package that we're waiting on
23 for this to be final?

24 MR. JOSEPH: We've reviewed the comments and
25 identified the issues and have begun doing some additional

1 research that we need to do. We believe it will be done
2 sooner rather than later. Some of the issue becomes one of
3 priority because many of the same people are working on the
4 capital rule. So as far as a full deadline, I'm not sure.
5 I mean, the end of October is what we're hoping and maybe a
6 little bit sooner if things fall into place.

7 CHAIRMAN O'NEILL: So this extension to January
8 will be the last extension that we will have before we put
9 this issue to bed?

10 MR. JOSEPH: We hope. I mean, there could be
11 conceivably if the final rule comes out much different than
12 the proposed rule, some Banks may hope for more time. I
13 don't know.

14 MR. BOTHWELL: Let me say that the length of the
15 extension that you are requesting, in our best view, allows
16 not only sufficient time to finalize the rule and present it
17 to the Board for adoption, but also time for the Federal
18 Home Loan Banks to adjust their systems, which is probably
19 going to be the longer part of the time that's needed. We
20 are hopefully going to get something to this Board
21 late-October or early November so the Banks will have the
22 lead time they need to alter their systems to make sure they
23 are in compliance.

24 CHAIRMAN O'NEILL: Okay. Do any other Board
25 members have any questions?

1 MR. WEICHER: Just mild curiosity on the choice of
2 the date other than that it is a Monday. Is the four-month
3 period, does that represent some estimate of the time
4 required?

5 MR. JOSEPH: A number of the Banks in their
6 comments asked for 90 days from the date of publication, so
7 if we have an end of October approval date, that would just
8 about give it.

9 MR. WEICHER: I see. Okay.

10 CHAIRMAN O'NEILL: Any other comments? Okay. Can
11 I have a motion to adopt the waiver.

12 MR. MENDELOWITZ: My turn. I so move.

13 CHAIRMAN O'NEILL: Okay. The vote occurs on the
14 staff proposed package on unsecured credit. All those in
15 favor certify by saying aye.

16 (A chorus of ayes.)

17 CHAIRMAN O'NEILL: Any opposed?

18 (No response.)

19 CHAIRMAN O'NEILL: The package is adopted. Thank
20 you very much.

21 MR. BOTHWELL: Finally, Mr. Chairman, the last
22 item on the agenda is the proposed solicitation of public
23 comments on the issues being raised by the membership
24 petitions and the growing consolidation of the banking
25 industry as well as the increase in the interdistrict

1 business activity of Home Loan Bank members. And I would
2 ask Scott Smith, the acting director of the Policy Office,
3 to present this solicitation of comment for your
4 consideration and discussion.

5 MR. SMITH: Thank you, Jim. Good morning, Mr.
6 Chairman, Directors Leichter and Mendelowitz, and Secretary
7 Weicher.

8 The staff is requesting the Board of Directors
9 consider and approve the solicitation of comments on the
10 issue of concurrent membership in more than one Federal Home
11 Loan Bank. If approved by the board, this solicitation of
12 comments will represent the first step in a process that may
13 result in a proposed rule addressing the issue of
14 multidistrict or concurrent membership. This process is one
15 approach to addressing concerns over the ongoing
16 consolidation in the financial services sector and its
17 consequences on the Federal Home Loan Bank System.
18 Furthermore, this process was prompted by the Finance
19 Board's receipt of several petitions seeking Board approval
20 of concurrent memberships for members that either have or
21 will merge with other out-of-district members.

22 In general, the solicitation seeks comments on
23 whether and how the current rules governing the membership
24 of a financial institution and Federal Home Loan Bank should
25 be revised. The current rules concerning which Federal Home

1 Loan Bank or how many Federal Home Loan Banks a member may
2 join were initially designed nearly 70 years ago. At that
3 time, the reach of financial institutions was significantly
4 constrained by state laws to be largely within a single
5 state or even smaller areas.

6 Since that time, however, statutory changes,
7 industry developments, regulatory modifications, and the
8 evolution of the financial services sector have brought
9 about changes in the composition, the size, and the scope of
10 Federal Home Loan Bank members and their activities. And
11 while some aspects of the membership rules have been
12 changed, notably, that membership was opened up to
13 commercial banks in 1989 and made voluntary for all eligible
14 institutions in 1999, there has not been any major revision
15 of the rules that determine which or how many Federal Home
16 Loan Banks a member may join.

17 Nonetheless, as the industry has evolved, the
18 current rules have not constrained some members from
19 expanding their activities into other Federal Home Loan Bank
20 districts through various means. In fact, many Federal Home
21 Loan Banks now have members that are disproportionately
22 large and/or able to conduct significant activity across
23 Bank district boundaries. For example, as of the beginning
24 of this calendar year, half of the Federal Home Loan Banks
25 had one or more members that accounted for at least 20

1 percent of their total advances outstanding, and eight of
2 the Federal Home Loan Banks had at least one member that was
3 larger in terms of asset size than the Federal Home Loan
4 Bank itself.

5 And concerning multidistrict activity, currently
6 there are more than 100 holding companies that through their
7 subsidiaries have access to memberships in more than one
8 Federal Home Loan Bank, and there are nearly 200 members
9 with branch offices that reach across Federal Home Loan Bank
10 district boundaries.

11 Furthermore, even though the Finance Board has yet
12 to allow concurrent memberships explicitly, concurrent
13 membership can be closely approximated by certain members.
14 Specifically, members that are subsidiaries of holding
15 companies and which have affiliates that are members of
16 other Federal Home Loan Banks have achieved the near
17 equivalence of concurrent membership in more than one
18 Federal Home Loan Bank district. And though not with the
19 same benefits as concurrent membership, many more members
20 can participate in activities across district boundaries
21 through their branching networks.

22 However, since consolidation of multiple charters
23 into a single charter or a branch network can lead to
24 economic and managerial efficiencies, several Federal Home
25 Loan Banks have petitioned the Finance Board on behalf of

1 certain institutions, attempting to achieve both the
2 efficiencies of branching and the benefits of concurrent
3 membership.

4 Although some members may have achieved the near
5 equivalence of concurrent membership, it is not clear what
6 the consequences of this activity are now or may become if
7 current membership were to be explicitly allowed and
8 extended to all members. At a minimum, concurrent
9 memberships and multidistrict activity in general bring a
10 degree of competition among the Federal Home Loan Banks that
11 was not envisioned when the System was created in 1932.
12 Such competition may prove beneficial in prompting more
13 efficient Federal Home Loan Bank operations and lower rates
14 to borrowers generally, and depending on how they are
15 structured, concurrent memberships may serve to lessen the
16 concentration of credit risk at those Federal Home Loan
17 Banks with very large and growing members.

18 However, the advent of concurrent membership could
19 serve to undermine the cooperative nature of the System and
20 lead to financial stress for some Federal Home Loan Banks if
21 not managed properly. Specifically, large members with
22 concurrent memberships could shop among different Federal
23 Home Loan Banks for better terms, such as lower advance
24 rates, but with a consequence that large volumes of business
25 could be shifted frequently from one Federal Home Loan Bank

1 to another.

2 And with the new capital structure being put in
3 place and which affords some degree of flexibility to the
4 Federal Home Loan Banks, such members may also shop for the
5 lowest stock purchase requirements. In such a world the
6 Finance Board as regulator would need to be vigilant to
7 ensure such competition would not be destabilizing.

8 MR. SMITH: The purpose of the solicitation of
9 comments is to assure that all parties with an interest in
10 this matter have a vehicle for bringing their views to the
11 attention of the Finance Board and to identify any new ideas
12 and approaches to dealing with this issue. To that end, we
13 have included in the solicitation a list of questions
14 relating to how developments in the financial sector and
15 membership base have affected the Federal Home Loan Bank
16 System and to the potential effects of allowing a single
17 depository institution be a member of more than one Federal
18 Home Loan Bank. I would be glad to answer any questions
19 that you might have.

20 CHAIRMAN O'NEILL: I am quite pleased that we have
21 the opportunity today to consider and approve the
22 solicitation of comments. As we are all aware, the ongoing
23 consolidation within the banking industry requires us to
24 consider how that consolidation may affect the Federal Home
25 Loan Bank System and how we, the board of directors of the

1 Finance Board, might best respond to the changes occurring
2 in the banking industry.

3 Today's solicitation is the first step in the
4 right direction. It requests public comments on a variety
5 of issues regarding the nature of the banking business in
6 this country, the potential risks and benefits to the
7 Federal Home Loan Bank System resulting from those changes,
8 and the advantages and disadvantages to the Federal Home
9 Loan Bank System that might result if the Finance Board were
10 to approve the concept of multiple Federal Home Loan Bank
11 memberships for a single depository institution. I am
12 hopeful that this solicitation will prompt many thoughtful
13 and well-reasoned comment letters that will assist the
14 Finance Board as we move forward with consideration of those
15 issues.

16 As pleased as I am with approving the solicitation
17 today, I am also concerned that we not lose sight of the
18 fact that the mergers and acquisitions within the banking
19 industry will continue while we consider the comments and
20 issues raised by the solicitation. We should remain
21 sensitive to the desire by many parties to preserve the
22 status quo for the affected Federal Home Loan Banks and
23 their members while the Finance Board considers how to best
24 address the underlying policy and legal issues associated
25 with multiple Federal Home Loan Bank membership.

1 I know that the staff has been considering the
2 merits of certain measures that the Finance Board might take
3 with regard to the pending petitions, which would preserve
4 the status quo for the Federal Home Loan Banks and the
5 affected members. We need to have the staff recommendations
6 in hand within 30 days so that we can take appropriate,
7 expeditious action. With that, I want to ask any of our
8 colleagues for their comments.

9 MR. LEICHTER: Mr. Chairman, I think we are facing
10 now the most significant issue that the System needs to
11 address. This System has shown amazing adaptability in its
12 almost 70 years in which it has, I think, provided just a
13 wonderful service to the member institutions to the capital
14 structure of this country and in furthering home ownership
15 and home building. But we've reached a point now where I
16 think the dikes are beginning to crumble. I don't think we
17 can play King Kanute and ask the tides not to come in. The
18 changes that have been occurring in the financial industry
19 demand that we take a look at the System and see how we can
20 continue the adaptability of the System so we can continue
21 to be viable and continue to achieve our mission.

22 I want to say, as we deal with this whole
23 question, and while it's framed in terms of multidistrict
24 memberships, I don't think that we are limited in choosing
25 one of the poles, which is either to do nothing, continue as

1 we are, or to have multi-district memberships. The issue
2 that we're dealing with is that we have these national banks
3 that do business in numerous districts, and how best to
4 adapt to that is the issue that we have to deal with. It
5 may be that we will have a solution which will permit or
6 recognize the activities of the national banks in more than
7 one district without necessarily having to go to
8 multidistrict memberships, although that is obviously one of
9 the considerations before us.

10 My point is that as we deal with this issue, and
11 many use this metaphor, it's going to be like peeling an
12 onion. It's going to raise a lot of other issues and
13 questions, and we ought to very openly and in a very fulsome
14 manner look at all of these various questions in, I want to
15 say, a very open process.

16 I think we need the involvement of all of our
17 Banks, of the members of the trade organizations, anybody
18 who is interested in the System, and we very much welcome
19 not only your comments; we really welcome your
20 participation. And we've discussed this among ourselves of
21 how we might further this process by possibly having
22 workshops, by having meetings. I think it's such an
23 important issue that it requires really the maximum
24 attention by everyone who is interested in it, and we have
25 no predetermined answers to the questions that are being

1 raised. We need your guidance on this.

2 Let me also say that we know that there are
3 presently four petitions pending before us, and I think all
4 of us are concerned about the effect the recent mergers and
5 consolidations and pending mergers and consolidation -- I'm
6 very pleased Chairman O'Neill stated this is something the
7 staff needs to come in with its recommendation and for us to
8 address, and we will do that.

9 So it's a big challenge, but it's a very
10 interesting one and one that, I think, together that we can
11 resolve, and we can continue the wonderful work and continue
12 to achieve the mission of the Home Loan Bank System. So I'm
13 very happy to see this. As many people in this room know,
14 I've been urging that we get this solicitation of comment
15 out, and I'm very pleased that we're doing it today.

16 MR. WEICHER: I just want to associate myself both
17 with your remarks, Chairman O'Neill, and with Director
18 Leichter's remarks. I notice that the oldest of these
19 petitions has been before the Board for not quite a year,
20 which is a long time in today's financial market to be
21 waiting for a decision on something that is as time
22 sensitive as this is. I think the solicitation of comments
23 is certainly the right procedure to take for the reasons
24 that Director Leichter was stating.

25 This is an extremely important issue for members

1 of the Bank and for members of the System and for the Banks
2 themselves and for the Board. I think we do need to be
3 moving forward on these individual petitions in some
4 systematic way as we solicit comments, which I can imagine
5 will be extensive and will require serious attention by the
6 Board and the staff over the foreseeable future.

7 CHAIRMAN O'NEILL: Before recognizing Director
8 Mendelowitz, is the comment period on this 90 days?

9 MR. BOTHWELL: Yes, it is.

10 CHAIRMAN O'NEILL: Okay. And usually it gets into
11 the Federal Register about a week after we do our work, so
12 that means that we basically will have the next three months
13 for the Banks, the Boards, to get in their comment letters,
14 and then we will take this up as an item for us at the first
15 of the new year. Director Mendelowitz?

16 MR. MENDELOWITZ: Thank you, Mr. Chairman. I
17 wanted to express my appreciation to the staff for doing
18 such a good job of putting this issue in what I believe is
19 the appropriate context. Any time issues come before the
20 Finance Board we need to think very carefully about what's
21 the cart and what's the horse. And it's clear that the
22 fundamental issue that we're facing is the tremendous
23 changes that are taking place in the financial sector and
24 the implications of that for the System.

25 And the staff did an outstanding job of pointing

1 out how changes in law, changes in regulation, and
2 innovation in the financial markets have created a
3 circumstance where the financial sector today and the
4 membership in the Home Loan Bank System is very different
5 than the circumstances that prevailed when the System was
6 created and, for that matter, very different from the
7 circumstances that prevailed as recently as 10 or 15 years
8 ago.

9 And I think that the petitions for multi-district
10 membership really are the action forcing lever. They are
11 the mechanism which, in effect, has forced the Finance Board
12 to confront the implications for the System posed by the
13 dramatic changes that have taken place in the underlying
14 industry.

15 And with that said, I want to urge everyone who
16 has an interest in the System to read this request for
17 comments carefully and to respond as fully and as
18 thoughtfully as possible and to come forward with as many
19 creative and innovative suggestions as possible because I
20 join my colleagues in stating clearly that we don't have our
21 minds made up on this issue.

22 We are looking for help in both understanding the
23 implementations for the System of the changes that are
24 taking place and the full range of possible creative and
25 innovative ways of bringing the System into a greater

1 conformity with the reality of the underlying industry.

2 Thank you.

3 CHAIRMAN O'NEILL: I guess one thing that the
4 members of the public can get out of this is that the Board
5 is rather united in how we view the steps that we must take
6 going forward, and I think with an issue of this magnitude I
7 think it's great that we are that united. Can I have
8 somebody give us a motion to approve the solicitation of
9 comments?

10 MR. MENDELOWITZ: I'd like to move.

11 CHAIRMAN O'NEILL: Okay. The question arises on
12 that solicitation. All those in favor please certify by
13 saying aye.

14 (A chorus of ayes.)

15 CHAIRMAN O'NEILL: Any opposed?

16 (No response.)

17 CHAIRMAN O'NEILL: The solicitation of comments is
18 agreed to. And I know that Arnie Intrater wants me to say
19 not only for this issue, but all four issues that any
20 conforming changes that need to be made to the documents for
21 the Federal Register or any other kind of changes, I would
22 ask if we could have unanimous agreement to that. And this
23 board meeting is adjourned.

24 //

25 (Whereupon, at 11:15 a.m., the hearing was

1 adjourned.)
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REPORTER'S CERTIFICATE

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3 DOCKET NO.: N/A

4 CASE TITLE: Federal Housing Finance Board Meeting

5 HEARING DATE: September 26, 2001

6 LOCATION: Washington, DC

7

8 I hereby certify that the proceedings and evidence are
9 contained fully and accurately on the tapes and notes
10 reported by me at the hearing in the above case before the
11 Federal Housing Finance Board.

12

13

14 Date: September 26, 2001

15

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