

FEDERAL HOUSING FINANCE BOARD

OPEN MEETING

Wednesday, September 14, 2005

Federal Housing Finance Board
1625 I Street, N.W.
Washington, D.C.

The Board meeting convened, pursuant to
notice, at 10:09 a.m.

MEMBERS PRESENT:

RONALD A. ROSENFELD, Chairman

ALICIA CASTANEDA, Director

ALPHONSO JACKSON, Director

FRANZ S. LEICHTER, Director

ALLAN I. MENDELOWITZ, Director

STAFF PRESENT:

SHELIA S. WILLIS, Secretary

A G E N D A

<u>AGENDA ITEM</u>	<u>PAGE</u>
Motion to Close Portion of Meeting	3
Motion to Seal Transcript of Closed Meeting	3
Motion to Add Expedited Regulatory Relief to Support Victims of Hurricane Katrina to Meeting Agenda	5
Motion to Adopt the Resolution Expediting Regulatory Relief for the Victims of Hurricane Katrina	9
Motion to Adopt Finance Board's Fiscal Year 2006 Budget	17
Motion to Adopt Annual Performance Budget for Fiscal Year 2006.	20

P R O C E E D I N G S

CHAIRMAN ROSENFELD: Good morning, everyone. I call this meeting of the Federal Housing Finance Board to order.

It's a delight to see so many guests here today. I hope that's a sign that we're doing well, but thank you for coming and we appreciate your presence.

Today, we will have an open session, followed immediately by a closed session, where the Board will receive updates of examination and supervisory findings.

We now need to vote to approve closing the latter portion of today's meeting, as required by the Sunshine Act and Finance Board regulations.

Since the closed portion of today's meeting will contain sensitive and confidential bank examination information, I would ask for a motion to seal the transcript of this portion of the meeting.

Director Mendelowitz?

MR. MENDELOWITZ: Mr. Chairman, I move to close that portion of this meeting and further that

this Board determine that the record and transcript of this closed portion of the meeting be kept confidential.

CHAIRMAN ROSENFELD: Thank you for the motion. Is there any discussion of the motion? Any discussion?

[No response.]

CHAIRMAN ROSENFELD: Seeing none, the Secretary will please call the roll on the motion.

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

MR. LEICHTER: Yes.

MS. WILLIS: Director Castaneda?

MS. CASTANEDA: Yes.

MS. WILLIS: Director Mendelowitz?

MR. MENDELOWITZ: Yes.

MS. WILLIS: Secretary Jackson?

SECRETARY JACKSON: Yes.

MS. WILLIS: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes.

The motion is carried and the subsequent portion of our meeting will be closed, and its

transcript will remain closed and confidential.

Thank you.

Let us now turn to the public portion of today's meeting. I'd like to move that the Board of Directors determine that today's Finance Board business requires the addition of an agenda item, Expedited Regulatory Relief to Support Victims of Hurricane Katrina. This change is made in less than seven days notice to the public.

I further move that the Board determine that no earlier notice of this change in the subject matter of the meeting was possible.

I would accept the motion to approve this addition to today's agenda.

MR. JACKSON: So moved. The motion.

CHAIRMAN ROSENFELD: Would the Secretary please call the roll?

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

MR. LEICHTER: Yes.

MS. WILLIS: Director Castaneda?

MS. CASTANEDA: Yes.

MS. WILLIS: Director Mendelowitz?

MR. MENDELOWITZ: Yes.

MS. WILLIS: Secretary Jackson?

SECRETARY JACKSON: Yes.

MS. WILLIS: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes.

The motion is adopted, and the item has been added to the agenda.

Therefore, the first agenda item for consideration is the resolution expediting regulatory relief for the victims of Hurricane Katrina. Who will be making the staff presentation?

MR. KENNEDY: I will.

CHAIRMAN ROSENFELD: Mr. Kennedy.

MR. KENNEDY: On September 8th, the Federal Home Loan Bank of Dallas requested staff of the Finance Board, specifically the Office of Supervision, to issue a no action letter that would permit households whose incomes exceed the Affordable Housing Program income limits to occupy vacant Affordable Housing Program projects and permit the percentage of low-income households to

lower than the percentage required under the AHP Program regulations.

The next day, on September 9th, the Office of Supervision did issue a no-action letter, but importantly, it included conditions in terms of the suspension of AHP requirements.

There are seven. I'll mention them briefly.

The displaced individual household must have resided in a county designated by FEMA as one affected by Hurricane Katrina and eligible for individual assistance.

The project owner must obtain prior written approval from the Dallas bank before they can do this.

This will terminate on March 31st, 2007. It is not open ended.

The project owner must maintain and certify certain information and a statement signed under penalty of perjury by the displaced individual head of household that the individual requires temporary

housing because of damage to the household's home in the eligible county.

The project owner must maintain documentation of the date the individual household began temporary occupancy and the date the occupancy ends.

Of course, the rents charged must not exceed the existing Affordable Housing Program rents for the units.

And existing Affordable Housing Program eligible tenants cannot be evicted or have their tenancy terminated as a result of efforts to provide temporary housing for displaced individuals. We're not going to move people out to make room for people that are affected by the hurricane.

Now, this action certainly is consistent with other federal emergency actions to provide needed housing for households whose homes were destroyed or who have had to be evacuated from affected areas.

Ginnie Mae has issued an all participant letter. The Office of Housing within HUD has issued

a mortgagee letter to all lenders encouraging forbearance relief.

This--the essence of this resolution really is to extend that same regulatory relief to the remaining 11 Federal Home Loan Banks. Many people from the affected area are moving to other jurisdictions outside of Dallas and Atlanta. So the other Federal Home Loan Banks, this would afford them--it's a clear message from this Board that this kind of relief should be extended to the victims regardless of where they end up.

And that's what the resolution would accomplish.

CHAIRMAN ROSENFELD: Thank you very much. Is there any discussion? Yes, Franz.

MR. LEICHTER: Mr. Chairman, I think this resolution is an implementation of a statement that the Board issued last week that we would do everything in our power and our authority to assist the banks that provide relief to the victims of Hurricane Katrina. And this resolution shows our support for efforts by the banks. I think our

eagerness to see the banks take steps in providing assistance to people who've been victimized by this terrible natural catastrophe. I think the Home Loan Bank system, with its long history of providing affordable housing I think is well suited and has the resources and the skills to provide assistance to these victims; and I know that the Federal Housing Finance Board will do everything that we can do to see that the banks are active in providing assistance and help to victims.

MS. CASTANEDA: I also would like to have some words, Mr. Chairman. Again, I would like to reiterate that our action today is another important signal of our commitment that we are prepared to take whatever appropriate steps are prudent and help for the recovery effort for the Katrina disaster, consistent with the mission of the Home Loan Banks and the Finance Board. And I encourage the Home Loan Banks as government-sponsored entities that receive benefits from their public backing to play a role in the recovery consistent with their special

responsibility to assist their members and the public in this time of great need.

Again, the Finance Board will continue to do what we can to be as supportive as possible. Thank you.

CHAIRMAN ROSENFELD: Thank you, Director Castaneda. Anyone else?

MR. MENDELOWITZ: Yeah. I just had a point of clarification on the resolution.

I'm a bit Latin-challenged, notwithstanding we had a couple years of Latin in high school.

What is sua sponte mean?

MR. KENNEDY: Sua sponte means that the Office of Supervision, without any additional--on their own volition, on their own action, without any additional action by the Board can extend this relief to the other--to the remaining 11 banks. No additional prompting, no additional resolution is required. They can move. And speed is really at the essence of this resolution. We can't afford to become slowed down in this process.

MR. MENDELOWITZ: Thank you.

MR. KENNEDY: Now, in saying that, the Board makes it--the Office of Supervision was very careful and thoughtful in imposing the appropriate restrictions in this area. They will be doing the same kind of analysis for any other appropriate requests that come in and the Board is saying continue to do that also.

CHAIRMAN ROSENFELD: Anything else. If there's nothing else, I'll accept a motion to approve the resolution.

MR. LEICHTER: So moved.

CHAIRMAN ROSENFELD: Okay. Would the Secretary please call the roll?

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

MR. LEICHTER: Yes.

MS. WILLIS: Director Castaneda?

MS. CASTANEDA: Yes.

MS. WILLIS: Director Mendelowitz?

MR. MENDELOWITZ: Yes.

MS. WILLIS: Secretary Jackson?

SECRETARY JACKSON: Yes.

MS. WILLIS: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes.

The motion is adopted.

Our next agenda item is for consideration is the adoption of the Finance Board's Fiscal Year 2006 Budget. Who will be making the presentation? Judith?

MS. HOFMANN: I am. Thank you, Mr. Chairman. I will briefly summarize the proposed Finance Board's Fiscal 2006 Budget.

The dollars are \$35,873,765. And that is a decrease from the fiscal year 2005 budget of approximately \$576,000.

You will note that there are two major decreases in two of the line items from fiscal year 2005, and those reflect one-time costs in the 2005 budget for rent and for furniture, which were associated with our move to "Eye" Street. There is a decrease in the IT line item, with an offsetting increase in other government services, which reflects our contract with the Bureau of Public

Debt, the Department of the Treasury, for our financial management system.

There is an increase in salary and benefits, which reflects 10 new positions for the Office of Supervision, filling some existing vacancies and full-year funding for a number of positions for the Office of Supervision, which were just filled in the last quarter of this fiscal year.

There is also an increase in professional services of almost a million dollars, which reflects an increase primarily in support of the Office of Supervision Initiatives.

And that, in summary, is the proposed fiscal 2006 budget, Mr. Chairman, and then I'm happy to answer any questions that anyone has.

CHAIRMAN ROSENFELD: Thank you. Are there any--is there any discussion from the Board?

MR. JACKSON: Did you say you cut the budget by saving on rent?

MS. HOFMANN: We have some one-time expenditure for rent. If you look at the rent for

2005 and the rent for 2006, you'll see there's a major decrease.

MR. JACKSON: Okay. That's excellent. That's very unique in Washington.

MR. MENDELOWITZ: Mr. Secretary, as people say, you know, once you learn how to ride a bike, you never forget. Once you learn how to cut budgets, you never forget. So that's where it comes from.

CHAIRMAN ROSENFELD: Any discussion? Allan?

MR. MENDELOWITZ: Mr. Chairman, I have to say that when I look at the changes at the Finance Board over the past couple years, under your leadership and under the leadership of Chairman Castaneda before you, we have truly I think evolved into a world-class regulator. And I think that's true both on the substantive side in terms of the supervision and in terms of the operations as well, and that involved having the right people, having the right number of people, and it also involves having the business processes.

And as we sort of fine tune our status as world-class regulator, I think one of the things we need is to have, you know, all the appropriate documented processes. And one that I think would be good to develop and complete at this point before we begin the next year's budget cycle would be a budget process manual that lays out the timeline, the composition, the participants, responsibilities and the content that goes into developing the budget in the coming year.

And that's a good standard reference manual for any agency, and given that we've done the critical stuff--hiring the right people, rationalizing our operations, you know, outsourcing stuff that it makes no sense for small agency to do. We've done lots of good stuff.

I think we're sort of tidying up around the edges, and I think that's something we should call for as a Board from the staff at this point to see developed over maybe the next six weeks or so.

CHAIRMAN ROSENFELD: Allan, did you give me your comments prior to your suggestion. How could you be opposed to that?

Any other discussion?

I certainly support you. I think that those --that's a very good suggestion. I trust we'll take a part and execute it.

Any other suggestions?

If there's nothing else, I'll accept a motion to approve the resolution.

MR. LEICHTER: So moved.

CHAIRMAN ROSENFELD: God, you are exceptionally credible with that voice.

[Laughter.]

CHAIRMAN ROSENFELD: The Secretary will call the roll.

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

MR. LEICHTER: Yes.

MS. WILLIS: Director Castaneda?

MS. CASTANEDA: Yes.

MS. WILLIS: Director Mendelowitz?

MR. MENDELOWITZ: Yes.

MS. WILLIS: Secretary Jackson?

SECRETARY JACKSON: Yes.

MS. WILLIS: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes.

The motion is adopted.

Our next--thank you, Judith. Our next item for consideration is the adoption of the Annual Performance Budget for fiscal year 2006. Meg?

MS. HAWLEY: Thank you. Good morning. Every Federal agency is required to prepare a five-year strategic plan and an annual performance budget. The Finance Board's current strategic plan covers the period 2003 through 2008.

The Finance Board's Annual Performance Budget is being presented today for--to you for your approval. This budget identifies the means and strategies that the agency will use during the next fiscal year to achieve the goals and objectives outlined in the current five-year strategic plan.

Both documents were prepared in accordance with the Office of Management and Budget's Circular A-111.

In the annual performance budget for fiscal year 2006, the Board has identified three goals. They are:

Examine every Federal Home Loan Bank.

Ensure that the Federal Home Loan Banks are serving the needs of the Housing and Finance and the Community Investment needs of every community.

And to use the agency's resources effectively and efficiently to supervise and regulate the Federal Home Loan Banks.

The strategic goals have not changed from the prior fiscal year. The agency has modified its annual performance goals, where necessary to ensure that the desired outcome is within the Finance Board's control.

In addition, the means and strategies to achieve the agency's goals have been updated to reflect the activities that will carry over from 2005, and will be initiated in 2006.

I'll be happy to answer any questions.

CHAIRMAN ROSENFELD: Meg, as everyone here on the Board knows, I have a serious hearing impediment.

MS. HAWLEY: I'm sorry.

CHAIRMAN ROSENFELD: Did I miss anything?

MS. HAWLEY: No. It's a repeat of what you were told on Monday.

CHAIRMAN ROSENFELD: Okay. If there's nothing else, I'll accept a motion to approve the resolution.

MR. LEICHTER: Yes. I've finished. I just want to say one thing, particularly for guests who are here and others, and you should not be misled by the fact that we went through the budget so quickly or went through this so quickly; that this document and the budget didn't receive very careful and exhaustive analysis, not only by the staff, but also by the members of the Board, and I know a lot of time was spent going over the budget. I have private briefing by Judith where we very carefully went over this plan with Meg in a briefing.

So I don't want anybody to think that our actions are here somewhat casual or cavalier. A lot of work and lot of thought had gone into this, and this is sort of the final formal act.

CHAIRMAN ROSENFELD: If there's nothing else, I'll accept a motion to approve the resolution.

MR. LEICHTER: So moved.

CHAIRMAN ROSENFELD: Will the Secretary please call the roll?

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

MR. LEICHTER: Yes.

MS. WILLIS: Director Castaneda?

MS. CASTANEDA: Yes.

MS. WILLIS: Director Mendelowitz?

MR. MENDELOWITZ: Yes.

MS. WILLIS: Secretary Jackson?

MR. JACKSON: Yes.

MS. WILLIS: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes. The motion is adopted.

Thank you, all. This ends the open session of the meeting. We will reconvene in closed session in five minutes.

[Whereupon, at 10:27 a.m., the open meeting recessed, to reconvene in closed session at 10:36 a.m., this same day.]

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