

FEDERAL HOUSING FINANCE BOARD

OPEN BOARD MEETING

Wednesday, June 8, 2005
Washington, D.C.

The Board meeting convened, pursuant to notice, at 10:05 a.m., at 1777 F Street, N.W., Second Floor Board Room, Washington, D.C.

MEMBERS PRESENT:

RONALD A. ROSENFELD, Chairman
FRANZ S. LEICHTER, Director
ALPHONSO JACKSON, Director
ALLAN I. MENDELOWITZ, Director
ALICIA R. CASTANEDA, Director

STAFF PRESENT:

CHRISTOPHER BOSLAND
KELLY SPEARMAN
STEPHEN CROSS
DARIS MEEKS
SCOTT SMITH
ANDRE GALEANO
CHARLES JONES
DOUG DUVALL
CHRISTIE SCIACCA
DUANE CREEL
JULIE PALLER
MIKE POWERS
CHRISTOPHER MORTON
JOHN KENNEDY
THOMAS JOSEPH
NEIL CROWLEY
SHELIA WILLIS
JAMES WINNING
JOHN FOLEY
JOSEPH MCKENZIE

P R O C E E D I N G S

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

Today we will have an open session to consider two items and a closed session to follow.

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

As the announced agenda states, the closed portion is a periodic update of examination program development and supervisory findings. The Sunshine Act and Finance Board regulations specifically allow closure of meetings to receive such updates, which include sensitive and confidential bank examination information. The transcript of the closed portion of the meeting will contain information that may be withheld from publication.

So at this point I would ask for a motion to have a closed portion of this meeting that deals

with exam programs and supervisory findings and to seal the transcript of this portion of the meeting.

Director Leichter?

DIRECTOR LEICHTER: 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?

Please call the roll.

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

DIRECTOR LEICHTER: Yes.

MS. WILLIS: Director Castaneda?

DIRECTOR CASTANEDA: Yes.

MS. WILLIS: Director Mendelowitz?

DIRECTOR 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.

Now let's turn to the public portion of today's meeting. The first agenda item for consideration is the Capital Plan Amendment for the Federal Home Loan Bank of New York. Who will be making that staff presentation?

MS. PALLER: I am.

CHAIRMAN ROSENFELD: Good.

MS. PALLER: Good morning, Mr. Chairman, Mr. Secretary, Board members.

The Federal Home Loan Bank of New York is proposing an amendment to its capital plan that would change several provisions of the plan, but the changes are technical.

The most substantive is to change the opt-out date from the date that is 60 days prior to the effective date to the date that is 10 days prior

to the effective date. This is to allow the Bank to meet its October 3, 2005 target date for conversion by giving it additional time to complete the preparation and distribution of its information statement. It would not reduce the amount of time a member has to review the information statement and determine whether it wants to remain a member upon conversion but would give the Bank less time to respond to member withdrawals.

The Bank, however, does not anticipate any member withdrawals. It previously had distributed an information statement to members in October 2003 and had no requests for withdrawal by the opt-out date, despite disclosure of weaknesses in its manufactured housing securities portfolio prior to the opt-out date.

Other proposed amendments to the plan include a revision to the dividend section, a revision on the frequency for excess stock repurchases, and revisions to the section setting forth the basis for calculation of the membership stock purchase requirement for members who join or

merge between calendar year ends. Each of these changes provides the Bank with greater flexibility in managing its capital stock position.

The proposed amendments are limited in scope and would not alter the basic capital structure or stock purchase requirements previously approved by the Finance Board. The proposed amendments comply with all statutory and regulatory requirements, comport with policies of the board of directors, and present no safety and soundness concerns. We recommend approval of the proposed amendments and we would be happy to answer any questions.

CHAIRMAN ROSENFELD: Thank you, Julie.

Is there any discussion from the Board?

DIRECTOR CASTANEDA: I have no problems with the proposed amendments and I accept the staff recommendations. The most important thing is that the Bank continue on a schedule to complete its conversion. So no, I don't have any objections.

CHAIRMAN ROSENFELD: Anyone else?

If there's nothing else I'd accept a motion to approve the proposal.

MS. PULLER: It's two resolutions.

CHAIRMAN ROSENFELD: Oh, I'm sorry, the two resolutions.

Would the secretary please call the roll?

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

DIRECTOR LEICHTER: Yes.

MS. WILLIS: Director Castaneda?

DIRECTOR CASTANEDA: Yes.

MS. WILLIS: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. WILLIS: Secretary Jackson?

SECRETARY JACKSON: Yes.

MS. WILLIS: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes. The motion is adopted.

Our next agenda item for consideration is the capital plan amendment for the Federal Home Loan Bank of Seattle. Who will make this presentation?

DIRECTOR CASTANEDA: Thank you, Julie.

CHAIRMAN ROSENFELD: Jim, you have a great last name.

MR. WINNING: Thank you very much. I can't take credit for it.

Good morning, Mr. Chairman and members of the Board. The Federal Home Loan Bank of Seattle is requesting that the Finance Board approve an amendment to its capital structure plan to change the advance activity stock requirement. The proposed amendment would reduce a member's advance activity requirement for new advances by the amount of its membership stock but only if the member has no excess Class B1 or B2 stock, only to the degree that the membership stock is not otherwise allocated to MPP assets.

Simply stated, if a member does not have enough excess B1 or B2 stock to capitalize a new advance, this change would allow it to capitalize the advance using unallocated membership stock rather than having to purchase additional bank stock.

This amendment is intended to foster advance growth and coincides with the fundamental change in the Bank's business model. The new business plan places significantly more emphasis on the advance business and contemplates a significantly larger advance portfolio. This advance growth is intended to redeploy capital and funding freed by maturing called or prepaying investments in mortgage assets. Without advance growth it is likely that the Bank would either deleverage, which would reduce its earnings prospects, or maintain leverage with new investments.

The primary issue underlying this amendment is the fact that under the Bank's existing advance activity stock requirement, many members cannot take down significantly higher advance buyings without buying additional bank stock. This requirement may adversely impact implementation of the advance-oriented strategy because the Bank's poor earnings prospects and the Finance Board's prohibition on

dividend stock redemptions and stock repurchases reduce the attractiveness of the bank's stock.

In this case if a member views the stock as a relatively poor investment, it effectively represents an increase in the member's cost of borrowing through advances and may induce them to use alternative sources of wholesale funding. This amendment should reduce this impediment by generally increasing the capacity of existing stock to support new advances and thus reduce the likelihood that a member would be required to buy additional stock to take down new advances.

Though this amendment should effectively reduce the overall advance activity stock requirement across membership and encourage advance growth over time, the immediate effect on advance volumes may not be substantial. In particular, Bank information indicates that in theory, enough excess B1 and B2 stock is already available to capitalize projected advance growth. Though such a result is not practically possible to achieve because many members with capacity will not take down new

advances and will take down significantly less in their capacity existing stock does provide room for significant advance growth.

Just as significant in restraining the immediate benefit of this amendment is the fact that the Bank's capital, its current capital, will only support a limited amount of advance growth before it's constrained by leverage limitations.

The potential benefit of this amendment also varies considerably across the individual members. Members who desire advances but are constrained by the need to purchase additional stock, especially those with little excess B1 or B2 stock, would benefit most. Members who have more excess B1 and B2 stock than is needed to satisfy their advance demand would not benefit. Members who membership stock is already being used to capitalize MPP assets would not benefit until the assets pay down the MPP assets and it's paid down enough to reduce their MPP activity requirement below the level of the membership stock.

Overall, the proposed amendment to the capital plan appears to be consistent with the Bank's plan to leverage existing capital with advances rather than investments in MPP assets. We have also reviewed the proposed amendment and concluded that it complies with all the regulatory requirements.

Finally, based on our analysis, consultation with Finance Board examiner-in-charge for Seattle and the Seattle banking analyst, we believe the proposed amendment does not present any safety and soundness concerns and we recommend approval of the amendment.

CHAIRMAN ROSENFELD: Thank you very much.

Any discussion from the Board?

Would the secretary please call the roll?

DIRECTOR LEICHTER: I'll make a motion.

CHAIRMAN ROSENFELD: Oh, I'm sorry.

DIRECTOR LEICHTER: I move that we approve the resolution.

CHAIRMAN ROSENFELD: If it's not in my script, I don't know it.

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

DIRECTOR LEICHTER: Yes.

MS. WILLIS: Director Castaneda?

DIRECTOR CASTANEDA: Yes.

MS. WILLIS: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. WILLIS: Secretary Jackson?

SECRETARY JACKSON: Yes.

MS. WILLIS: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes. The motion is
adopted.

Thank you all. This ends the open session
of the meeting and we will reconvene in a couple of
minutes. In deference to the Secretary's schedule,
we'll reconvene as soon as the folks leave who
should leave.

[Whereupon, at 10:12 a.m., the open session
adjourned.]