

FEDERAL HOUSING FINANCE BOARD

OPEN MEETING

Wednesday, February 9, 2005
Washington, D.C.

The Board meeting convened, pursuant to notice, at 10:00 a.m., at 1777 F Street, N.W., Second Floor Board Room, Washington, D.C.

MEMBERS PRESENT:

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

STAFF PRESENT:

SHELIA S. WILLIS, Secretary
JOHN FOLEY
ELLEN HANCOCK
THOMAS HEARN
JUDITH HOFMANN
DAVID LEE
CHARLES E. McLEAN
CHRISTIE SCIACCA
SCOTT SMITH
MARK J. TENHUNDFELD

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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.

Today, we will have an open session to consider several items, as well as a closed session to follow. Well, we need to start with a public vote to approve closing the latter portion of today's meeting as required by the Government in 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 bank examination information that is sensitive and confidential.

The transcript of the closed portion of the meeting will contain information that may be withheld from publication under our regulations.

So, at this point, I would ask for a motion to both close that portion of this meeting dealing the exam programs and supervisory findings and to seal the transcript and record of this portion of the meeting.

Director Castaneda?

DIRECTOR CASTANEDA: Thank you, Mr. Chairman.

Pursuant to Finance Board Regulation Section 912.5(b), I move to close that portion of this meeting dealing with a review of Finance Board Examination Programs and Supervisory Findings and, further, that this Board determine, pursuant to Finance Board Regulation Section 912.5(c)(3), that the record and transcript of this closed portion of the meeting shall be kept confidential pursuant to Finance Board Regulation Section 912.4(a)(8).

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

[No response.]

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

MS. WILLIS: On the motion 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: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes. The motion is carried, and the subsequent portion of our meeting will be closed, and the transcript thereof will remain closed and confidential. Thank you.

Let us now turn to the public portion of today's meeting.

The first item on the agenda is consideration of a proposed amendment to the capital plan for the Federal Home Loan Bank of Dallas. Christie, who will be making that presentation?

MR. SCIACCA: Mr. Chairman, Ellen Hancock and Associate Director Scott Smith are here to present that case.

MS. HANCOCK: Good morning. The Federal Home Loan Bank of Dallas is requesting Finance Board approval of an amendment to its capital plan. The amendment would reduce the lower bound of the range for the bank's membership investment requirement.

The bank's capital structure is all Class B stock. The bank's capital plan establishes a membership investment requirement and an activity-based requirement, the ranges for each of those components of a member's stock purchase requirement.

The bank's board of directors may make changes to the requirement within the ranges. However, any changes outside of the ranges require Finance Board approval.

The bank's membership investment requirement is a percentage of member assets. Member asset growth has exceeded the bank's projections in recent years, and the bank has reduced the membership investment requirement twice

in an effort to keep its capitalization in line with its target capital ratios. As a result of the two adjustments, the membership investment requirement is currently at .15 percent, the bottom of the range.

The bank expects membership assets to continue to grow and believes that reducing the lower bound of the membership investment requirement to .05 percent is the most effective way for it to continue to operate within its target capital ratios.

We have reviewed the bank's proposed amendment and found that it complies with all regulatory requirements, that it does not raise any safety and soundness concerns, and that it is the preferred way from a supervisory perspective for the bank to continue to operate within the range of its target capital ratios.

The bank did consider other options prior to deciding to submit a capital plan amendment for Finance Board approval. We evaluated several of those options to see whether the bank could make changes to its capital structure and achieve its desired level of capital without a capital plan amendment.

Our analysis shows that the bank could adjust certain other capital requirements and bank policies to keep its capitalization in line with its targeted capital ratios, at least in the short run. In the long run, the bank could

achieve its desired level of capital only by adjusting its activity-based investment requirement.

That alternative, however, would require the bank to alter its strategy of requiring member activities to be self-capitalizing. That is, having members capitalize their activities at the bank's target operating capital ratio of 4.25 percent. The self-capitalizing feature of the bank's activity requirement provides required stock to fully support member activities for the entire period that the activity is outstanding and ensures that the bank does not rely on excess stock to support member activity.

The self-capitalizing feature of the bank's activity also allows the bank's capital stock to automatically adjust to reflect the level of member activity. Because of these characteristics, the self-capitalizing feature of the activity requirement is desirable from a supervisory perspective.

We also evaluated whether the proposed change in the membership stock purchase requirement was consistent with the bank's business model and risk profile. The bank's current business model can be described as focused on making low-cost advances to members while maintaining a low overall risk profile.

The bank's business model, combined with its current capital plan investment requirements, results in very stable capital ratios over a wide range of scenarios.

The bank's capital structure, with its self-capitalizing activity requirement, plus a membership requirement, enables the bank to meet its minimum capital requirement of 4 percent of total assets without relying on excess stock.

The proposed amendment to the capital plan is designed to provide the bank with nothing more than the flexibility to maintain its current business model and to operate within the range of its target capital ratios should member assets continue to grow in coming years.

Both the Office of Supervision Dallas bank analysts and the bank's examiner-in-charge concur with our assessment, and neither have found any safety or soundness concerns associated with the proposed amendment. We, therefore, recommend that the Finance Board approve this amendment to the Dallas Bank's capital plan.

CHAIRMAN ROSENFELD: Thank you very much.

Is there any discussion from the Board?

DIRECTOR CASTANEDA: I just would like to make a comment, Mr. Chairman. First, I would like to thank staff for their good work in preparing these matters for the Board's consideration.

As the banks' safety and soundness regulator, we must always examine things with a critical eye and do a thorough analysis of everything that comes before us, including capital plans.

In this process, our purpose is not to

second-guess the banks on how they manage their affairs, but simply to satisfy ourselves through critical analysis. And we have even raised the full safety and soundness implications, and they may be raised. That is what we have been pushing the staff for, and I would like to thank them again for their efforts.

CHAIRMAN ROSENFELD: Thank you, Director Castaneda.

If there is nothing else, I would accept a motion to approve the resolution.

DIRECTOR LEICHTER: So moved.

CHAIRMAN ROSENFELD: Would the Secretary please call the roll?

MS. WILLIS: On the matter 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: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes. The motion is adopted. Thank you.

The next item on the agenda is a vote on a final regulation amending the Finance Board's Minority Contractor

Outreach Program. Mark, who will be making that presentation?

MR. TENHUNDFELD: Mr. Chairman, this morning, David Lee from the Office of Management and Charles McLean from the Office of Supervision will be describing the final rule update.

MR. McLEAN: Good morning, Mr. Chairman and Directors. The staff is here to present a final rule updating its regulation establishing a Minority Contractors Outreach Program.

The statute requires the Finance Board to adopt regulations intended to ensure inclusion, to the maximum extent possible, of minorities and women and entities owned by minorities and women in all contracts entered into by the agency.

To fulfill this responsibility, the Finance Board adopted the current rule in 1993. This rule is procedurally complex and does not reflect the size of the agency nor the way the agency's contracting process and general organization have changed. The rule has not been modified since its adoption, nor has the agency operated its contracting program under its direction.

The staff is proposing a new rule that is streamlined, reflects the current agency organization, extends coverage to businesses owned by individuals with disabilities, is consistent with rules issued by other

FIRREA agencies, and is user-friendly in that it is written in a question and answer format.

The purpose of the rule is to establish a contracting outreach program that is consistent with principles of full and open competition and best value acquisition and that ensures that businesses owned by minorities, women, and individuals with disabilities have the opportunity to participate to the full extent possible on all Finance Board contracts.

Program participants would include businesses unconditionally owned, that is to say more than 51 percent owned, by women, minorities, or individuals with disabilities. Definitions of the terms "minorities" and "individuals with disabilities" are based on EEOC definitions and guidance.

Under this rule, the Finance Board will identify and solicit the participation in agency contracts of businesses owned by minorities, women, and individuals with disabilities. To identify such businesses, the Finance Board will review contact lists provided by federal agencies, trade groups, and other organizations; advertise contracting opportunities through talkative media; and participate in talkative business promotion events.

After identifying businesses, the Finance Board will provide information about and technical assistance to participate in the contracting process. The Finance Board

also will ensure that personnel involved in the contracting process understand and promote the outreach program.

The Chairman will appoint an outreach advocate who is responsible for program advocacy, oversight and monitoring, and providing technical assistance and guidance on how best to facilitate the participation in the contracting process of minorities, women, and individuals with disabilities and businesses unconditionally owned by them.

The staff recommends that the Board adopt the final rule as provided in the Board book and stands ready to respond to questions.

CHAIRMAN ROSENFELD: Thank you very much.

Is there any discussion from the Board?

DIRECTOR LEICHTER: Yes, this has been of particular interest so far, and I urged the staff to address this matter, and I'm pleased that we have this final rule before us. It's an appropriate response to this agency that was needed to update our rules on minority contracting.

I just want to say I think it is very important that we continue to remain in touch with other agencies, particularly FIRREA agencies, so that we can be sure that our processes, our work is comparable to what they do.

CHAIRMAN ROSENFELD: Any other comments?

DIRECTOR CASTANEDA: I do. I know, Mr. Chairman, you have directed staff to take some additional steps to

implement this program as revised by this rule. And I think that's going to be very helpful. I would look forward to receive the periodic reports that you're going to be providing us so this Board can assure we can achieve this goal.

CHAIRMAN ROSENFELD: Thank you.

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

DIRECTOR LEICHTER: So moved.

CHAIRMAN ROSENFELD: 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: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes. The motion is adopted.
Thank you.

The final item on the open portion of today's agenda is a vote to approve a proposed regulation for notice and comment relating to the Finance Board's standard reporting requirements for the Federal Home Loan Banks.

Christie and Mark?

MR. TENHUNDFELD: From OGC, Tom Hearn will be describing the proposed rule.

MR. SCIACCA: And we have again Associate Director Scott Smith.

MR. HEARN: Good morning.

DIRECTOR CASTANEDA: Good morning.

MR. HEARN: The staff is recommending that the Finance Board reorganize the way it imposes data reporting requirements on the Federal Home Loan Banks.

By way of background, Congress has given the Finance Board broad investigatory powers to carry out its duties to ensure that the banks operate in a safe and sound manner and carry out their housing finance mission.

In addition to the powers to examine the banks, the Finance Board is also authorized to require reports of condition from each of the banks. To date, the Finance Board has required the banks to file reports related to their financial condition--the call report, reports related to risk modeling data, and capital reports.

The Finance Board has also required the banks to report information related to their housing finance mission, such as reports related to the Acquired Member Assets Program and the Affordable Housing Program.

The Finance Board has encountered problems with respect to its bank reporting scenarios. For example, banks frequently file timely call reports, but later withdraw a

report because of inaccuracies. The Finance Board has also noted inaccuracies in bank submissions of data related to the terms and conditions of financial instruments used in running risk modeling.

Congress has given the Finance Board the power to redress violations of its rules and orders through the enforcement proceedings. Such proceedings include cease and desist orders and the issuances of civil monies penalties, or CMPs. For serious violations, the Finance Board may even order the removal of a Federal Home Loan Bank director or executive officer.

To make it easier for interested parties to locate bank reporting requirements and to simplify the process for modifying these requirements as circumstances warrant, staff proposes to reorganize the way the Finance Board imposes certain reporting requirements. It is recommended that present reporting requirements for the call report and the Affordable Housing Program be issued in a reporting manual. We have suggested the name "data reporting manual," or DRM.

Under the proposed rule, reporting requirements relating to AMA and other areas would be removed from Finance Board regulations. When this proposed rule is issued in final form, these removed requirements would also be made part of the reporting manual. The reporting manual would represent an enforceable order issued pursuant to the Finance Board's investigatory powers.

Staff recognizes the burden that reporting requirements can impose on the banks and members of the public and will make efforts to minimize such burdens by recommending for inclusion in the reporting manual only requirements for data that the Finance Board needs to ensure that it is carrying out its statutory duties.

When reporting requirements are issued as part of a reporting manual, the board of directors will control the nature and extent of public input. When changes to reporting requirements are not needed on an expedited basis, the Finance Board could give the banks and the public prior notice of contemplated changes and the opportunity to give input regarding such changes.

Reporting requirements could also be made available to the public by making the reporting manual available to the public, perhaps on the Finance Board's Web site.

In addition to the reorganization that I have described, the proposed rule would address two other issues. First, the rule would amend Part 917 to impose on each bank's board of directors the obligation to have policies and procedures to ensure that the banks comply with Finance Board data reporting requirements.

Given the Finance Board's need for bank information that is timely, accurate, and complete, it is

important that responsibility for this reporting rest at the highest level of each bank's corporate structure.

Second, the proposed rule would also add a new Part 914, which would include a general requirement that the banks file regulatory reports in conjunction with constructions and schedules established by the Finance Board.

I would be happy to answer any questions that you may have.

CHAIRMAN ROSENFELD: Thank you very much.

Are there any--

DIRECTOR CASTANEDA: Yes, I would like to make a statement again. Again, I would like to thank staff for preparing this regulatory proposal.

As many of you know, I have always believed in improving data collection, analysis, and reporting throughout the Federal Home Loan Bank system, both at the banks and here at the Finance Board. It's crucial to this agency's efforts to be a world-class regulator.

I believe the proposed rule before us today, which would streamline and clarify the data requirements we impose on the banks pursuant to our regulatory responsibilities as well as make clear the enforceability of those requirements, is a vital part of taking this agency to the next level.

We can have the best people and the best systems, but unless we ensure that the information that goes in is

accurate, timely, and complete, all of our efforts will be compromised.

And also I would like to add, and this is directed primarily to the Federal Home Loan Banks, that this Board is always mindful of regulatory burdens associated with these actions. Our aim with this regulation is not to pile new reporting requirements on you.

To the contrary, what we seek to ensure that we receive timely and accurate data. The process of developing the data reporting manual is, to my mind, just as much about streamlining, simplifying, and eliminating unnecessary and duplicative requests to the maximum extent possible.

We have been assured that staff will keep this goal in mind as it prepares sections of the manual for the Finance Board approval, and staff has been asked to work with and get feedback from the banks and compile their specific requirements.

I assure you that we will be looking to see that the results reflect this approach.

Thank you, Mr. Chairman.

CHAIRMAN ROSENFELD: Thank you.

If there is nothing else, I would accept a motion to approve the resolution.

DIRECTOR MENDELOWITZ: So moved.

CHAIRMAN ROSENFELD: 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: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes. The motion is adopted.

Thank you, all.

But before I close the meeting, I'd raise one
issue that presents something of a mystery to me.
Apparently, special provisions were made for Director
Weicher, evidenced by the coffee pot and the cream.

And obviously, it's someone's opinion that he
deserves special treatment, but we also knew that he was not
coming. It is very mysterious. I will discuss with the
other directors what merits contacting the IG, but suffice
it to say I'm very curious.

[Laughter.]

CHAIRMAN ROSENFELD: This ends the open session of
the meeting. We will reconvene in the closed session in
five minutes.

[Whereupon, at 10:22 a.m., the Open Board Meeting
adjourned.]