

FEDERAL HOUSING FINANCE BOARD

BOARD OF DIRECTORS MEETING

OPEN SESSION

Washington, D.C.

Tuesday, January 15, 2008

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
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1 PARTICIPANTS:

2 Board Members

3 RONALD A. ROSENFELD, Chairman

4 BRIAN MONTGOMERY, Director

5 GEOFFREY BACINO, Director

6 ALICIA R. CASTANEDA, Director

7 ALLAN I. MENDELOWITZ, Director

8 SHELIA WILLIS, Secretary

9 Also Present

10 CHARLES MCLEAN

11 STEPHEN M. CROSS

12 SHARON LIKE

13 NEIL R. CROWLEY

14 MIKE POWERS

15 CHRISTIE SCIACCA

16 SYLVIA MARTINEZ

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

2 (10:00 a.m.)

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

7 Today we will have an open session
8 followed immediately by a closed session where the
9 board will receive updates for examinations of
10 supervisory findings.

11 We now need to vote to approve closing
12 the latter portion of today's meeting as required
13 by the Sunshine Act and Finance Board Regulations.
14 And since the closed portion of today's meeting
15 will contain sensitive and confidential bank
16 examination information, I would ask for a motion
17 to seal the transcript of this portion of the
18 meeting.

19 Director Bacino?

20 DIRECTOR BACINO: Mr. Chairman, I move
21 to close the portion of today's meeting at which
22 we'll receive updates of examination supervisory

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

4 CHAIRMAN ROSENFELD: Thank you for the
5 motion. Is there any discussion on the motion?
6 Any discussion?

7 (No response)

8 CHAIRMAN ROSENFELD: Do I have a second?

9 DIRECTOR CASTANEDA: Second.

10 CHAIRMAN ROSENFELD: Director Bacino --
11 or pardon me, Director Castaneda, thank you.

12 DIRECTOR CASTANEDA: I'm glad you
13 remember my name.

14 CHAIRMAN ROSENFELD: The secretary will
15 please call the roll.

16 MS. WILLIS: On the item before the
17 board, Director Bacino, how do you vote?

18 DIRECTOR BACINO: Yes.

19 MS. WILLIS: Director Castaneda?

20 DIRECTOR CASTANEDA: Yes.

21 MS. WILLIS: Director Mendelowitz?

22 DIRECTOR MENDELOWITZ: Yes.

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1 MS. WILLIS: Director Montgomery?

2 DIRECTOR MONTGOMERY: Yes.

3 MS. WILLIS: Chairman Rosenfeld?

4 CHAIRMAN ROSENFELD: Yes. The motion is
5 carried and a subsequent portion of our meeting
6 will be closed and the transcript will be remained
7 closed and confidential. Thank you.

8 Now, let us turn to the public portion
9 of today's meeting. We will be considering a
10 request by the Federal Home Loan Bank of San
11 Francisco regarding its Affordable Housing
12 Program.

13 Who will be making it? Who will be
14 making the presentation?

15 MR. CROSS: I'll make the presentation,
16 Mr. Chairman.

17 Mr. Chairman, members of the board, the
18 Federal Home Loan Bank Act requires each federal
19 home loan bank annually to contribute 10 percent
20 of its proceeding year's net income to subsidize
21 lending for long term low and moderate income
22 owned occupied and affordable rental housing.

1 Under our Affordable Housing Program or
2 AHP Regulations, each bank can allocate its
3 contributions toward two programs: Its
4 Competitive Application Program and its
5 Homeownership Set Aside Program.

6 Under the AHP Regulation, a bank has the
7 authority to allocate the greater of \$4.5 million
8 or 35 percent of its annual required AHP
9 contribution to the Homeownership Set Aside
10 Program. The principle rules governing the
11 Homeownership Set Aside Program are found in
12 section 951.6 of our regulations.

13 The Federal Home Loan Bank of San
14 Francisco has submitted a request for a waiver of
15 certain provisions of Section 951.6 that concern
16 the AHP Set Aside Program. The San Francisco Bank
17 seeks to establish a program, which the bank
18 refers to as the Homeownership Preservation
19 Subsidy to assist low and moderate income
20 households refinance or restructure mortgages that
21 are or will soon be unaffordable because of
22 scheduled resets in their monthly payments.

1 The program requires a waiver from the
2 Finance Board in order to permit the bank to use
3 funds in a way other than enumerated in our
4 regulations. Specifically, Section 951.6c4 states
5 that, "Subsidies from the Set Aside Program may be
6 used for the purchase, construction, or
7 rehabilitation of owner occupied homes, provided
8 that at least one third of that amount is used to
9 assist first time home buyers."

10 One waiver would permit the San
11 Francisco Bank to allocate a portion of its 2008
12 and 2009 set aside allocation to assist low and
13 moderate income households -- homeowners modify or
14 refinance their adjustable rate nontraditional
15 mortgages that have adjusted or are scheduled to
16 adjust to an unaffordable interest rate following
17 an initial teaser interest rate.

18 Although the use of AHP funds for
19 refinancing of homes is a departure from current
20 policy, we believe that the temporary regulatory
21 waivers are justified given the current
22 circumstances in mortgage markets, which make

1 homeownership preservation or retention a
2 priority.

3 A second waiver would allow increase in
4 the maximum grant amount. Under Section 951.6c3,
5 AHP direct subsidies under the Homeownership Set
6 Aside Program are limited to a maximum of \$15,000.
7 The waiver resolution would allow in cases
8 warranted by the cost of restructuring alone under
9 the program a maximum subsidy under the
10 Homeownership Preservation Subsidy Program of
11 \$25,000.

12 The bank proposes to dedicate \$10
13 million of its AHP Set Aside to assist low and
14 moderate income homeowners refinance their
15 mortgages under the Homeownership Preservation
16 Subsidy in 2008. This amount would leave more
17 than one third of the bank's set aside allocation
18 in 2008 to assist first time home buyers as is
19 required under the current regulation.

20 The proportion of funds normally
21 dedicated to the Competitive Application Program,
22 which provides funds for rental and homeownership

1 projects, would not be changed. The bank's
2 advisory council -- AHP advisory council has
3 submitted a letter in support of the bank's
4 proposed program.

5 The bank proposed and the resolution
6 prepared for our board requires that as a
7 condition for participating in the program, that a
8 loan be owned by a member or a member's affiliate
9 and that the member contribute an amount equal to
10 at least twice the amount of AHP subsidy to the
11 restructuring of the loan.

12 In effect, the member would cover at
13 least two thirds of the eligible costs associated
14 with refinancing the member's loan. To qualify
15 for maximum AHP subsidy of \$25,000, for example,
16 the member would have to contribute \$50,000
17 towards the eligible costs of refinancing.

18 Consistent with the requirements of the
19 bank act, the benefit of the subsidy would go to
20 low and moderate income households. In the case
21 of this program, the benefit could take the form
22 of reduced monthly payments, a reduced loan

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1 principle, payment of closing costs, and
2 homeownership or credit counseling.

3 Under the terms of the program, a
4 household with an unaffordable mortgage would be
5 able to refinance or restructure its existing
6 mortgage into a mortgage with stable and
7 affordable monthly payments for 30 years.

8 The member institution would be solely
9 responsible for bearing the lost revenue from
10 reducing and stabilizing the low and moderate
11 income households' current adjustable rate
12 mortgage by replacing it with a market rate, fixed
13 rate, fully amortizing loan with a maturity of at
14 least 30 years.

15 AHP subsidy would go to reducing further
16 the fixed interest rate below a current market
17 rate if necessary to ensure that the household's
18 monthly housing costs, including interest,
19 principal taxes, insurance, and fees are no
20 greater than 45 percent of the household's monthly
21 income.

22 The program would also use AHP subsidy

1 to reduce the outstanding mortgage balance if
2 necessary to ensure that the loan is no greater
3 than 97 percent of the property's appraised value,
4 cover reasonable and documented third party
5 closing costs, and pay for home ownership or
6 credit counseling for the borrower.

7 The bank would require the member to
8 establish an escrow account for monthly payments
9 by the borrower for the purpose of paying property
10 taxes, hazard insurance premiums, and any flood
11 insurance premiums. The household must not have
12 more than \$35,000 in total assets, excluding home
13 equity and tax deferred retirement and education
14 savings.

15 In addition, the waiver resolution
16 establishes a series of conditions that must be
17 satisfied under the program, all of which have
18 been discussed with the bank. Among those
19 conditions are the following: Any member
20 receiving an AHP allocation under the program must
21 contribute two thirds of the eligible
22 restructuring costs for the benefit of the low and

1 moderate income homeowners.

2 The waivers would expire on December 31,
3 2009. This is essentially a pilot program. Any
4 loan refinanced under the program must have an
5 outstanding principal balance -- must not have an
6 outstanding principal balance in excess of the
7 current Fannie Mae or Freddie Mac conforming loan
8 limit.

9 The San Francisco Bank must ensure than
10 any member using AHP subsidy under the program
11 does not impose on the borrower any foreclosure
12 expenses that the member may have incurred prior
13 to the date of the AHP assistance or count
14 foreclosure expenses as eligible member costs
15 under the program.

16 The San Francisco Bank must require all
17 participating members to inform all customers with
18 eligible mortgages of the availability of AHP
19 assistance under the program and make assistance
20 to eligible households available on a first come,
21 first served basis.

22 The San Francisco Bank must provide all

1 members with equitable access to AHP subsidy under
2 the program and must establish operating policies
3 and procedures for the administration of the
4 program satisfactory to the director of the Office
5 of Supervision prior to dispersing subsidy under
6 the program. And a member would be obligated to
7 repay AHP subsidy on a pro rata basis upon
8 foreclosure by the member or any other entity,
9 including a deed in lieu of foreclosure.

10 The bank's proposed Housing Preservation
11 Subsidy would be consistent with the aims of
12 recent foreclosure response programs such as FHA
13 Secure, the Mortgage Forgiveness Debt Relief Act,
14 the Hope Alliance, which provide for a temporary
15 freeze in interest rates scheduled to adjust in
16 order to develop loan modification or workouts.
17 And the American Securitization Forms streamline
18 foreclosure and loss avoidance framework, which
19 has similar loan modification provisions.

20 However, the Home Preservation Subsidy
21 Program can fill gaps that these programs cannot
22 address, principally through its exclusive focus

1 on low and moderate income households and the
2 requirement that assistance be in the form of a
3 fixed rate fully amortizing mortgage, not just a
4 temporary suspension of scheduled rate increases.

5 One of the strengths of the AHP over the
6 years has been its ability to respond to changing
7 conditions in mortgage finance. Although in the
8 past AHP funds have not been used to refinance
9 existing home mortgages, we believe a temporary
10 modification to the policy is warranted given
11 changed conditions. The current regulation
12 reflects conditions in which interest rates were
13 at a relatively low level and house price
14 appreciation was anticipated.

15 Households that desired to refinance
16 their mortgages under those conditions would most
17 likely be -- would have been able to do so without
18 the need of AHP subsidy. These conditions have
19 changed and funds are now needed for homeownership
20 preservation. This limited authority will allow
21 us to assess the responsiveness of the bank's
22 proposal to these current challenges.

1 Going forward, in order that we respond
2 appropriately to these new circumstances, we also
3 intend to seek comment from the public through a
4 notice of proposed rulemaking. That proposed
5 rulemaking would solicit comment on whether and
6 under what circumstances AHP homeownership set
7 aside funds should be made available for loan
8 refinancing or restructuring in the future.

9 We would -- in summary, we recommend
10 that you approve the bank's waiver request subject
11 to the conditions that we detail in the
12 resolution.

13 Specifically, we seek authority to
14 allow, subject to the conditions set forth in the
15 resolution, a portion of AHP Set Aside Funds to be
16 used temporarily by the San Francisco Federal Home
17 Loan Bank to subsidize certain costs associated
18 with refinancing or restructuring mortgages to low
19 and moderate income households that face scheduled
20 increases and monthly payments that will likely
21 render these loans unaffordable to the households
22 and allow the maximum AHP grant under the program

1 to be \$25,000. These waivers would expire on
2 December 31, 2009.

3 We also seek your agreement to prepare
4 for your consideration at a future board meeting a
5 notice and comment on a proposed rulemaking
6 addressing circumstance in which for the
7 preservation of homeownership, AHP subsidies could
8 be used for loan refinancing or restructuring.

9 I thank you for your indulgence. And I
10 am joined by Charles McLean, Associate Director
11 and Sylvia Martinez from the Office of Supervision
12 to answer questions on the policy side and Sharon
13 Like, Senior Attorney and Neil Crowley, General
14 Counsel, to answer any legal questions about our
15 proposal.

16 CHAIRMAN ROSENFELD: Thank you, Dr.
17 Cross. Do any of the board members have a
18 comment? Yes, Ms. Castaneda?

19 DIRECTOR CASTANEDA: I would like to --
20 I do have a comment Mr. Chairman. Please let me
21 just state at the outset that I will support the
22 waiver on the terms proposed by staff.

1 These are, of course, extraordinary
2 times and there are historic challenges facing
3 many millions of American homeowners. We all want
4 to do what we can do to help. And this proposal
5 at least represents a step, albeit a relatively
6 small one, in the right direction.

7 That said, I have two main concerns and
8 comments, which have been mitigated by the
9 conditions our staff have included in the
10 proposal.

11 First, I think it's absolutely vital
12 that we do everything we can to limit the degree
13 to which this becomes or even gives the appearance
14 of a device to bail out members who may have made
15 loans that, whether or not they were appropriate
16 at origination, have turned out to be unwise.

17 I do appreciate the provisions that have
18 been imposed on the program, that the member put
19 out \$2 for every \$1 in subsidy, the provisions
20 requiring notifications of the program's ability,
21 and that the members ensure all eligible borrowers
22 have an equal opportunity to apply for assistance,

1 for example.

2 These do, as I say, mitigate the
3 appearance of it being allowed to assert and
4 extend and limit the potential for cherry picking,
5 which loans get restructured.

6 While we'll never be able to ensure that
7 the subsidy money isn't just used to facilitate or
8 structuring that would be made even in the absence
9 of these programs, it is incumbent on us and the
10 bank, for that matter, to closely monitor the
11 implementation and operation of the program for
12 signs that it's working as we intended. So, I
13 would expect staff to report to this board
14 periodically on how it's working.

15 And second, I'm not so sure that
16 ultimately a waiver is the appropriate way for us
17 to provide the relief intended, especially as it
18 represents a reversal in position by this agency
19 on what are eligible purposes for AHP funding.

20 I would think a precedent under the APA,
21 be it through an entering final rule or whatever
22 process will be appropriate here. So, we get the

1 input of both doesn't stand to gain as well as
2 lose from their reallocation of funds under the
3 bank's AHP fund.

4 I didn't have time to go through legal
5 opinion and details since we got it late, but I
6 believe your opinion reflects these two.

7 Am I correct, Neil?

8 MR. CROWLEY: That's correct.

9 DIRECTOR CASTANEDA: Okay. Especially
10 since I understand we are likely to proceed with a
11 similar request from at least one other bank,
12 Homegrown Bank, in the near future and perhaps
13 more after today.

14 But I think there is a sense that time
15 is of the essence and we will act today.
16 Nevertheless, I urge staff to move us quickly as
17 possible to prepare a regulatory proposal on which
18 we can have notice and comment regarding the
19 direction of the AHP program.

20 And Steve, I have a question. Can you
21 tell me if the bank's housing advisory council
22 fully endorses this proposal and how we'd see in

1 the minutes? I'm just curious if there was any
2 dissent.

3 MR. CROSS: Charles, would you?

4 MR. MCLEAN: Yes. We have reviewed the
5 minutes from the advisory council meetings as
6 Steve indicated, as well as from some of the
7 committee meetings, the housing committee
8 meetings.

9 There was discussion, and as Steve --
10 which was unclear. However, as Steve mentioned,
11 the chair of the advisory council in the initial
12 package and in the subsequent package that was
13 sent in from the bank has endorsed the program.

14 DIRECTOR CASTANEDA: Thank you.

15 CHAIRMAN ROSENFELD: Thank you, Mr.
16 McLean. Any other comments? Mr. Bacino?

17 DIRECTOR BACINO: First of all, Steve,
18 let me tell you I think your comment was
19 absolutely correct. The current housing crisis
20 that we're in calls for some innovative thinking
21 and action on behalf of the banks and also on
22 behalf of us, the regulators.

1 So, frankly, I guess I would say I think
2 that if we view this as a pilot program, I think
3 the key that we have to remember is we've got to
4 give it as much latitude as we can to give it a
5 chance to ensure its success.

6 My question to you is are some of the
7 other banks doing things that are similar already?

8 MR. CROSS: Two banks have indicated
9 that they will make community investment programs,
10 CIP funds available to members for -- to assist
11 them in restructuring troubled mortgages. Those
12 two banks are Cincinnati and Indianapolis.

13 The difference between that program,
14 which does not require a waiver and this program
15 is that in that case, the member receives a loan
16 from the home loan bank at a reduced interest rate
17 -- an advance from a home loan bank at a reduced
18 interest rate that it can use for documented
19 community investment purposes including
20 restructuring or refinancing loans to eligible
21 households. Whereas, under this program, the Home
22 Loan Bank of San Francisco would be extending a

1 grant that would be passed forward to the
2 homeowner along with a two times matching
3 contribution from the member institution.

4 DIRECTOR BACINO: Okay. Just one last
5 thought, there's a chart on the board package that
6 has a comparison table between Home Preservation
7 Subsidy, FHA Secure, and the Hope Now. You don't
8 have to turn to it. I was just going to say that
9 I thought it was extremely well done and extremely
10 helpful. And that's -- makes it a lot easier for
11 us as we go through some of this.

12 MR. CROSS: That was prepared jointly by
13 Sylvia Martinez, Amy Bogden, and with input from
14 Charles McLean.

15 DIRECTOR BACINO: Thanks because it was
16 well done.

17 DIRECTOR CASTANEDA: And I just -- and
18 Allan, forgive me. I know you have some comments.

19 Charles, Cincinnati announced that
20 program that Steve just talked about a couple of
21 months ago.

22 MR. MCLEAN: Yes.

1 DIRECTOR CASTANEDA: Have they make
2 actually any loans under?

3 MR. MCLEAN: I think that at least one
4 member has drawn down advances under the program.
5 This is -- which I received that information from
6 looking at one of the publications that the
7 Cincinnati Bank sent out a couple of days ago.

8 Prior to that, we thought -- we had
9 questions about how effective the program was
10 because there hadn't been news, but now it seems
11 that at least one member and my inference is that
12 other members were also thinking about accessing
13 that program.

14 DIRECTOR CASTANEDA: Because Sylvia just
15 announced it last week and I think that (off
16 mike).

17 MR. MCLEAN: Yeah.

18 DIRECTOR CASTANEDA: So, it's too early
19 to tell.

20 MR. MCLEAN: Yes. But we can look into
21 that further.

22 CHAIRMAN ROSENFELD: Any other of the

1 directors? Yes, Mr. Montgomery, Brian Montgomery.

2 DIRECTOR MONTGOMERY: A couple of
3 questions. First off, one clarification on FHA
4 Secure. The original intent of the product was to
5 help borrowers that were just delinquent with some
6 parameters that you've outlined here in your
7 chart.

8 About a month after we rolled out the
9 program, it had been confusing all along for the
10 public and even for the press. Look, does the
11 borrower have to be delinquent to come to FHA?
12 This is a question we got all the time. IN fact,
13 some of the 30,000 phone calls got were look, I
14 want to go to FHA, but I'm not delinquent. No,
15 no, we don't want you to be delinquent. You can
16 be current and refinance in FHA.

17 So, what we decided at that point was to
18 borrow a phrase from the restaurant industry to
19 the front of the house, FHA secures one product;
20 to the back of the house, we didn't put you in the
21 appropriate pocket. So, this is an important
22 level of clarification. We either put you in the

1 current pocket or the delinquent pocket, so as
2 they're priced differently through Ginnie Mae
3 anyway.

4 My question is is the intent of this to
5 be in lieu of any assistance that FHA Secure may
6 provide or the Hope Now Alliance using the
7 American securitization form. Is it to be in
8 place of that or is it just another tool in the
9 toolbox, so to speak?

10 MR. CROSS: It's my understanding that
11 this is to be another tool in the toolbox. There
12 -- there is nothing that would preclude this being
13 used in conjunction with other programs. Am I
14 correct, Charles?

15 MR. MCLEAN: Yes.

16 DIRECTOR MONTGOMERY: And this may be in
17 here. I'm sorry. I just got here yesterday.
18 But, did they quantify how many borrowers they
19 think they'll be able to help?

20 MR. CROSS: They didn't specifically,
21 but you can infer the number. A maximum grant of
22 \$25,000 with the initial pool being \$10 million

1 would mean if every assistance package required
2 \$25,000, there could be 400 households assisted.

3 We wouldn't -- we would actually expect
4 that the \$25,000 assistance would be the exception
5 not the rule, because the program is targeting
6 exclusively to low and moderate income households,
7 at \$10,000 assistance, it would assist 1,000
8 households.

9 DIRECTOR MONTGOMERY: So, best case,
10 1,000, worst case, probably 400?

11 MR. CROSS: Under the initial
12 allocation, that's correct.

13 DIRECTOR MONTGOMERY: Now, it is the
14 intent also for the borrower who's under the water
15 to help make up that delta between the unpaid
16 principle value -- excuse me -- the unpaid
17 principal balance versus the new appraised value
18 of the home?

19 MR. CROSS: No, that is -- that
20 difference is made up out of the combined AHP
21 subsidy and member write-off.

22 DIRECTOR MONTGOMERY: And member

1 write-off, which I agree with Alicia's point. I
2 think the hairpin by the member bank, I think is
3 appropriate as well. The -- I forgot the other
4 point I was going to make.

5 The FHA program -- for existing FHA
6 borrowers, we have a rather robust loss mitigation
7 program. But there's a whole delinquency process,
8 we have various tools that we can use with a
9 borrower. And one of them was we did a variation
10 following Hurricanes Katrina, Rita, and Wilma, and
11 that was a variation of what's called our partial
12 claim program.

13 And in the lieu of a disaster
14 assistance, we first sped up that process. And
15 secondly, we would take that combined value of any
16 arrearages, missed payments, missed tax payments
17 or insurance or whatever and to a point of time
18 when the borrower got on their feet under this
19 program, it's still in into effect, we would take
20 whatever that combined value was and FHA fronted
21 that money to the lender and then we then put that
22 in what we call a soft second mortgage that has a

1 due on sale clause or until what point the
2 mortgagor sells or refinances.

3 Normally, they make payments on it.
4 Most of these were concentrated in the South where
5 the median home prices were much, much lower than
6 I suspect we'll be seeing -- that this bank will
7 look at.

8 But I was just curious, did they
9 research or look at any sort of similar program as
10 part of their loss mitigation efforts?

11 MR. CROSS: Charles, do you know the
12 answer to that question?

13 MR. MCLEAN: No, I don't.

14 MR. CROSS: I don't know the answer to
15 that question.

16 DIRECTOR MONTGOMERY: Well, more than
17 likely, you probably would have heard of --

18 MR. CROSS: Right.

19 DIRECTOR MONTGOMERY: -- had they tried.

20 MR. CROSS: May I just add one
21 clarification in response to your earlier
22 question? I would characterize 1,000 not as the

1 -- 1,000 households not as the best case scenario,
2 but a more likely case scenario than 400.

3 It's very possible that in some cases
4 the amount of assistance would be just 5,000 or
5 6,000 or 4,000 dollars in the following sense.
6 The first step of the program is that the member
7 must replace the adjustable rate mortgage with a
8 fixed rate fully amortizing mortgage at a market
9 interest rate.

10 And so, take, for example, the case in
11 which a mortgage is scheduled to adjust in three
12 months to a 10 percent interest rate and the
13 current 30 year market rate is 6 and a half
14 percent, the replacement of the scheduled reset 10
15 percent rate with the current market rate of 6 and
16 a half percent is fully the responsibility of the
17 member. That reduction in interest rate is not
18 subsidized by AHP.

19 So, AHP subsidy would only go to
20 reducing an interest rate below that market level
21 and would go to reduce principal to 97 percent of
22 the appraised value. The bank presented to us as

1 illustrative examples a number of cases in which
2 the subsidy would be \$4,000 or \$5,000, \$6,000, not
3 \$10,000, \$15,000, or \$25,000.

4 So, the best case scenario is probably
5 more like 2,000 or 2500 households based on a
6 \$4,000 -- \$5,000 subsidy from AHP. I think a
7 likely scenario would be 1,000 households. And
8 the lowest number of households just
9 mathematically would be 400.

10 I'm sure that's more than you wanted to
11 hear, but I just wanted to make it clear that
12 1,000 is a best case scenario. It's a more likely
13 case.

14 DIRECTOR MONTGOMERY: And thanks for the
15 clarification. I would encourage all the member
16 banks to look strongly at what the Hope Now
17 Alliance is doing to my note about the toolbox and
18 FHA Secure recognizing the pending FHA legislation
19 that we're getting closer to. We are still set at
20 87 percent of conforming, which is what has proven
21 to be a barrier in California and other high power
22 states.

1 So, I think on the surface this looks
2 another good way to help more borrowers.

3 CHAIRMAN ROSENFELD: I notice a number
4 of folks in the audience who are seemingly new to
5 our deliberations. I will point out that Director
6 Montgomery's knowledge of the FHA Program should
7 not be assumed to be attributable to the rest of
8 the directors of the Finance Board. His knowledge
9 arises from the fact that he is the FHA
10 Commissioner and therefore, has extraordinary
11 insight into the FHA Program, and we welcome his
12 participation.

13 Any other comments? Director
14 Mendelowitz?

15 DIRECTOR MENDELOWITZ: Thank you, Mr.
16 Chairman. First, I would like to express my great
17 appreciation to the San Francisco Bank for making
18 this proposal. Everyone is well aware of the
19 tremendously positive role that the home loan bank
20 system has played since the meltdown of the credit
21 markets in August by a dramatic growth in our
22 advanced and book in liquefying our members so

1 that in fact, the financial market crisis in
2 August didn't turn into something worse for the
3 economy overall.

4 But at the same time, we have not been
5 doing a lot to help mitigate the risk that
6 homeowners face as a result of the events that in
7 fact led up to the meltdown in the capital
8 markets. And I think that's been a deficiency,
9 and I really appreciate the thinking and the
10 creativity that went into this proposal on the
11 part of the San Francisco Bank.

12 Secondly, with that said, I agree
13 wholeheartedly with Director Castaneda and the
14 staff's proposal that something like this in fact
15 should be the result of an APA proceeding, and it
16 should be a new program entered into a regulation.
17 And therefore, I view the San Francisco Program as
18 an absolutely critical source of information on
19 what, in fact, might make it possible to design a
20 program that would work most effectively and
21 beneficially to aid homeowners at risk.

22 And in that regard, I would very much

1 like to encourage the San Francisco Bank as soon
2 as they get information on how the program is
3 working and in the context of the parameters laid
4 out in this waiver, to let us know, in fact, if
5 the parameters work or if there are problems with
6 the parameter which we can fix by adjusting the
7 extent of the waiver.

8 Don't waste time bringing it to us. Let
9 the board members know so we can move quickly on
10 this, because I would hate to see a good effort
11 stymied because there are certain aspects of it
12 that we didn't anticipate that have gotten in the
13 way of effectively using this program to help
14 homeowners at risk.

15 As I said when I was looking through the
16 proposal and we were debating exactly how much
17 funds should be available, my feeling was let's be
18 a little more generous, primarily because if
19 somebody is offshore drowning and they're 100 feet
20 offshore and we throw them an 80 foot rope, we
21 haven't done them any good.

22 And so, the lifeline that we ship out to

1 these people, that we throw out to these people,
2 let's make sure that in fact it's long enough to
3 get to them so that we can help them. So, that's
4 number one.

5 Number two, one aspect of the program
6 relates to underwriting the credit of the
7 restructured borrowers and the waiver basically
8 places a maximum on debt service to gross income
9 of 45 percent. And I want to encourage this San
10 Francisco Bank when it applies this program to
11 keep in mind that that's a maximum, not a minimum
12 and that 45 percent is a pretty onerous debt
13 service burden.

14 The standard rule of thumb in
15 underwriting mortgages is that all the associated
16 expenses associated with the mortgage, the
17 mortgage principal interest, taxes, any mortgage
18 insurance, et cetera, shouldn't exceed 28 percent.
19 And as Director Montgomery knows better than me,
20 the FHA Secure Program places a maximum of 31
21 percent on the mortgage service all in costs
22 relative to gross income of 31 percent.

1 And so, I would encourage them to be
2 very thoughtful, very careful about this. We do
3 not want to set up homeowners to fail. We want to
4 set up homeowners to succeed. And if in a
5 restructuring that has benefited from an AHP
6 subsidy, the debt service burden is still so high
7 as to put the homeowner at risk. We haven't done
8 any good other than to hold off a foreclosure for
9 another short period of time. So, please, folks,
10 when you administer this, give it careful
11 attention.

12 Third, I want to emphasize that the
13 funding for this program comes out of the
14 Homeowners Set Aside portion of the AHP. It does
15 not come out of the allocation for competitive
16 programs, which are essentially affordable rental
17 housing support programs.

18 The support for affordable rental
19 housing generally in our country has been fairly
20 low. AHP has been an extremely important source
21 of funding for affordable rental housing. And had
22 this proposal proposed taking money out of the

1 affordable rental housing portion of the AHP
2 funding, I would have opposed it because I don't
3 think that we should be taking money away from the
4 affordable rental housing part of the program,
5 which generally has not gotten much support in
6 recent years. And the appropriate pot to come out
7 if is the homeownership set aside.

8 And if any other banks come forward with
9 proposals, I would urge them to make sure that the
10 funding for any of their proposals does come out
11 of the homeowners set aside and that you not
12 entertain asking for a waiver to take funds out of
13 the affordable rental housing portion of the
14 program.

15 Third, there is one issue that is
16 absolutely unavoidable when we look at this and
17 that is the reason why the housing finance sector,
18 financial sector, capital markets have gotten into
19 so much trouble is because of the collapse of
20 underwriting of household mortgages.

21 So, there's a lot of complex reasons for
22 why this happened, but at the end of the day,

1 mortgages that looked like they were perfectly
2 normal mortgages but sub prime turned out to be on
3 a de facto basis predatory loans. And I define a
4 predatory loan much more loosely than the way
5 predatory loan might be defined in the sense that
6 if a loan is made to a homeowner that it's clear
7 they do not have the ability to repay, that has to
8 be viewed in a functional sense as a predatory
9 loan.

10 The only outcome of that is going to be
11 that homeowner goes into default and loses their
12 home and whatever equity they may have in the
13 home.

14 The Finance Board entertained this issue
15 of the interface between liquidity that we provide
16 to our members and the predatory lending problem a
17 couple of years ago and we in effect, set it
18 aside.

19 We took a very weak response and for the
20 most part, we relied upon an advisory bulletin in
21 which to address the issue of predatory lending.
22 I think that this was not one of our finer hours,

1 and I think that while we may be a little bit late
2 into the game, I think this is the time when we
3 really need to revisit the issue of the extent to
4 which the evil of predatory lending gets addressed
5 directly by the Finance Board and we take
6 regulatory action to make sure that, in fact,
7 Finance Board advances are not liquefying what
8 would be easily classified as predatory loans.

9 And I would like to work with the staff
10 and as quickly as possible bring to the board a
11 regulatory proposal to make sure that the
12 liquidity provided to the financial sector by the
13 home loan banks is not contaminated in anyway by
14 funding of predatory loans.

15 Lastly, and this goes back to the
16 original proposal of San Francisco, one of the
17 concerns I had is that the waiver requires and the
18 program envisions that the restructured loans
19 would be all turned into 30 year fixed rate
20 mortgages.

21 And because they are going to be
22 unusual, different, they aren't going to fall into

1 the category of loans that would typically be
2 bought by Fannie Mae and Freddie Mac, which means
3 the members will most likely have to put them on
4 their balance sheet because there is not much of
5 an exit strategy other than prime conforming
6 mortgages where you don't carry the Ginnie Mae
7 guarantee.

8 And your discussion earlier, Brian,
9 really set me thinking that one really nice way to
10 help make this program even more successful would
11 be look for opportunities to match the assistance,
12 restructuring assistance provided under the pilot
13 proposed by San Francisco with refinancing through
14 FHA Secure.

15 If the FHA subsidy and the member's
16 contribution rate with combine the loan down to a
17 level that meets both the underwriting and maximum
18 loan requirements set by FHA Secure, a good avenue
19 would be to use that assistance to in fact enable
20 an FHA security financing because the mortgage
21 then will have a FHA guarantee and it will be
22 available for rolling into a Ginnie Mae security

1 and provides the member with a vehicle for taking
2 a 30 year fixed rate mortgage that they wouldn't
3 ordinarily put on their balance sheet and putting
4 it out into a capital market which intermediates
5 the associated risk somewhat better.

6 DIRECTOR MONTGOMERY: Just one
7 clarification on that, Allan. The advanced
8 partial claim, if that's what you're referring to,
9 is only available to existing FHA homeowners.

10 DIRECTOR MENDELOWITZ: But an existing
11 sub prime borrower that meets the other
12 requirements can't refinance into an FHA mortgage?

13 DIRECTOR MONTGOMERY: Oh, absolutely.

14 DIRECTOR MENDELOWITZ: That's what I'm
15 talking about.

16 DIRECTOR MONTGOMERY: Yes. In fact,
17 we've done close to 70,000 since the announcement
18 back in September. But the advanced partial claim
19 option again was born out of disaster assistance
20 --

21 DIRECTOR MENDELOWITZ: Right, right.

22 DIRECTOR MONTGOMERY: That is only for

1 existing FHA homeowners.

2 DIRECTOR MENDELOWITZ: I will recognize
3 again the chairman's observation that your
4 expertise on this is unique. I was thinking just
5 more in terms of using the subsidy to make it
6 possible to meet the underwriting terms of an FHA
7 mortgage and make it in fact possible for at risk
8 homeowners to refinance not just into an
9 affordable 30 year fixed rate mortgage but one
10 that's FHA insured so in fact the member doesn't
11 have to keep the risk of a 30 year fixed rate
12 mortgage on the balance sheet if they choose not
13 to. Thank you.

14 CHAIRMAN ROSENFELD: Are there any other
15 comments from any of the directors?

16 (No response)

17 CHAIRMAN ROSENFELD: Okay. If there's
18 nothing else, I will accept a motion to approve
19 the resolution grant the request of the Federal
20 Home Loan Bank of San Francisco. Is there a
21 motion?

22 DIRECTOR BACINO: So moved.

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1 CHAIRMAN ROSENFELD: Thank you, Mr.

2 Bacino. And do I have a second?

3 DIRECTOR CASTANEDA: Second.

4 CHAIRMAN ROSENFELD: Thank you, Ms.
5 Castaneda. Will the secretary please call the
6 roll?

7 MS. WILLIS: On the item before the
8 board, Director Bacino, how do you vote?

9 DIRECTOR BACINO: Yes.

10 MS. WILLIS: Director Castaneda?

11 DIRECTOR CASTANEDA: Yes.

12 MS. WILLIS: Director Mendelowitz?

13 DIRECTOR MENDELOWITZ: Yes.

14 MS. WILLIS: Director Montgomery?

15 DIRECTOR MONTGOMERY: Yes.

16 MS. WILLIS: Chairman Rosenfeld?

17 CHAIRMAN ROSENFELD: Yes. Before we
18 recess, the board will pass a resolution to
19 preserve the memory of a dedicated employee of the
20 Finance Board, Margaret L. Hawley. Meg passed
21 away on Friday, January 11, 2008. We all know how
22 hard Meg fought her illness and contributed to the

1 work of the Office of Supervision.

2 She earned the respect and admiration of
3 her coworkers and supervisors. Her talent,
4 knowledge, and experience were important to
5 enhance the work of Office of Supervision. She
6 was also known for her integrity and humor, which
7 endeared all of her -- which endeared her to all
8 of us at the Finance Board. We will miss her
9 greatly.

10 I will now make a motion that the board
11 approve the resolution honoring Meg Hawley. Do I
12 have a second for this motion?

13 DIRECTOR CASTANEDA: Second.

14 CHAIRMAN ROSENFELD: Thank you, Director
15 Castaneda. Will secretary please call the roll?

16 MS. WILLIS: On the item before the
17 board, Director Bacino, how do you vote?

18 DIRECTOR BACINO: Yes.

19 MS. WILLIS: Director Castaneda?

20 DIRECTOR CASTANEDA: Yes.

21 MS. WILLIS: Director Mendelowitz?

22 DIRECTOR MENDELOWITZ: Yes.

1 MS. WILLIS: Director Montgomery?

2 DIRECTOR MONTGOMERY: Yes.

3 MS. WILLIS: Chairman Rosenfeld?

4 CHAIRMAN ROSENFELD: Yes. The motion is
5 adopted. This ends the open session of the
6 meeting. We will reconvene the closed session in
7 three minutes.

8 (Whereupon, at 10:44 a.m., the
9 PROCEEDINGS were adjourned.)

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