

FEDERAL HOUSING FINANCE BOARD

PUBLIC BOARD MEETING

Wednesday, September 15, 2004

12:03 p.m.

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

BOARD MEMBERS PRESENT:

ALICIA R. CASTANEDA, Chairman
FRANZ S. LEICHTER, Director
JOHN C. WEICHER, Director
ALLAN I. MENDELOWITZ, Director

STAFF PRESENT:

MARK TENHUNDFELD, General Counsel
STEVE CROSS
JUDITH HOFMANN
CHRIS MORTON
CHUCK JONES
JOHN GARDNER
DARIS MEEKS
NEIL CROWLEY
CARTER WOOD
JOHN WATERS
MARY GOTTLIEB

- - -

C O N T E N T S

Federal Housing Finance Board
Fiscal Year 2005 Budget, Office of
Management

- - -

P R O C E E D I N G S

CHAIRMAN CASTANEDA: Good afternoon, everybody. I call this meeting of the Federal Housing Finance Board to order. There are two sessions of today's meeting, an open portion to consider the Fiscal Year 2005 Budget, and a closed session to review a periodic update of examination program development and supervisory findings.

Let's move first to the public vote to approve the closed portion of today's meeting, a vote 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 in Section 522B(c)(8) of the U.S. Code and Finance Board Regulations in § 912.5(b)(1) specifically allow closure of meetings to receive such updates.

These sessions include Bank examination information that is sensitive and confidential, and thus the closed meeting.

The transcript of this 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

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

DIRECTOR WEICHER: Madam Chairman.

CHAIRMAN CASTANEDA: Director Weicher.

DIRECTOR WEICHER: Madam Chairman, pursuant to Finance Board Regulation § 912.5(b), I move to close that portion of this meeting dealing with the review of Finance Board examination programs and supervisory findings, and further, that this Board determine pursuant to Finance Board Regulation § 912.5(c)(3) that the record and transcript of this closed portion of the meeting shall be confidential pursuant to Finance Board Regulation § 912.4(a)(8).

[Motion made.]

CHAIRMAN CASTANEDA: Thank you for the motion. Is there any discussion of the motion? Okay. Seeing none, the Secretary will please call the roll on the motion.

MS. GOTTLIEB: On the motion before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. GOTTLIEB: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. GOTTLIEB: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. GOTTLIEB: Chairman Castaneda?

CHAIRMAN CASTANEDA: 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.

We now turn to the first and only item on today's public agenda, the adoption of the Federal Housing Finance Board Fiscal Year 2005 Budget. And today we have Judith Hofmann of the Office of Management and John Waters at the table to present the details. So, first, I'm going to give the floor to Judith.

MS. HOFMANN: Thank you. The Finance Board's Fiscal Year 2005 Budget is \$36,449,477. That is \$5.3 million above the fiscal year 2004 budget, which represents a 17 percent increase.

The Office of Supervision accounts for \$3.3 million of the increase, which includes 16 new positions, bringing the Office of Supervision staffing to 96 positions out of the total Finance Board staffing level of 146.8. Ten of those 16 positions are in the Examination and Supervision Division.

There is also a one-time increase, one time expense of \$2 million associated with the move to the new building to accommodate the increased staffing levels at the Finance Board.

There are also some offsetting reductions, approximately \$534,000 decrease in the IT budget and \$156,000 decrease in telephone costs. Those are the highlights of the budget. I would be happy to answer any specific questions from the Board on the 2005 budget.

CHAIRMAN CASTANEDA: Are there any questions? I don't hear any questions. So before--

DIRECTOR WEICHER: I have just one question.

CHAIRMAN CASTANEDA: I'm sorry. Director Weicher.

DIRECTOR WEICHER: This is the budget for the fiscal year which is starting in two weeks?

MS. HOFMANN: Yes.

DIRECTOR WEICHER: I presume. We had a budget when we--we had a budget a year ago presumed to be submitted as part of the budget of the United States, and I'm trying to--I don't remember what the differences are.

MS. HOFMANN: The budget last year, John, was \$31,070,909. So we're approximately \$5.3 million above last year's budget--

DIRECTOR WEICHER: Okay. Then I saw that. Okay. No, I saw that. Okay. Fine. I see what you're saying. Thanks, Judith. Yeah.

CHAIRMAN CASTANEDA: Any other questions? Okay. Before we proceed to a motion, I have just a few brief remarks to make.

First, again, many thanks to everyone on the staff involved in developing this project. The budget was put together very carefully and demonstrates that the Finance Board continues its commitment and efforts to being a strong and effective financial regulatory agency. This budget provides the agency with the tools it needs to effectively supervise and regulate the Federal Home Loan Banks for safety and soundness and completion of their housing finance mission.

As you have heard in the presentation, we will experience significant growth in staffing next year, and for the third year in a row, much of that growth will come in the supervision area.

I believe in a course of constant improvement for the Federal Housing Board and this budget reflects exactly such course of action.

I should also acknowledge the decision to relocate was made after lengthy study with the support of the Staubach Company, the global real estate advisory firm. Our growth in staffing simply exceeded the space available in

this building and with more growth expected, a move became necessary.

And with a new Board room, hopefully we won't have to put all of our guests at these meetings out in the foyer.

So I'm pleased with the budget and give my thanks to the people who produced it. I'm looking forward to putting it in place as we constantly strive to improve.

Any other comments?

DIRECTOR LEICHTER: If I may, Madam Chairman, I just want to point out that while there may not be many questions asked at this particular meeting, that this budget is the result of a lot of work and study and discussion among the Board members with the staff. We've had numerous briefings. We've had individual directors talking to division office heads. So this budget has received really very careful study by the Board and it reflects our considered judgment that these expenditures are necessary for us to fulfill our duties.

I think the expenditures are necessary. I think they're prudent, and while some initially may say, well, why is there such a large increase, I just point out that, one, these increases are in line with the increases that the Home Loan Banks have experienced as they too have found it necessary in this changing fiscal and financial environment

to make increases in their staffing to meet technological changes and needs and so on.

And as the Chairman has pointed out, most of these increases go to the Office of Supervision and that really reflects I think the greater responsibility and needs we have in this changing financial environment and with the changing profile of the Banks to have an examination staff and a supervision staff that can make sure that meet all our responsibilities and also give all the support that's necessary to the Banks in the System.

Of course, part of the increase is a one-time increase, as Judith Hofmann pointed out, because we need to relocate our offices. These offices are not only too small, but our present building is so inefficient that it really hinders the staff in performing their work efficiently.

So I think people should be clear that this again is a necessary budget. It's not an expansive budget, and I may also point out that we've always administered our budgets very, very conservatively. In almost every year, in fact, every year we've come in substantially below budget and certainly we will monitor this budget and make sure that every expenditure if it is made is made because it is necessary, and I think it reflects what I think since I've

been here and I think the years before, a very conservative approach of this Finance Board to its budget.

Thank you.

CHAIRMAN CASTANEDA: Good point, Director Leichter. Director Mendelowitz?

DIRECTOR MENDELOWITZ: I would like to also note for the record that the Board of Directors did receive a communication from an active member of the System who expressed concerns about budget increases, and I just wanted to make sure that the System at large appreciated the fact that those communications were not treated lightly and were not viewed with anything other than great seriousness.

And in response to those concerns, I'd like to say that along with the Chairman's views and Director Leichter's, this is a budget that provides for a lot of tooth and very little tail. Basically, very high proportion of the resources are directed toward fulfilling the safety and soundness and mission oversight responsibilities of the Finance Board, and as organizations go, a very, very small amount is directed to overhead and operations.

If anything, we might be a little thin on the overhead and operations. I'm not saying we should spend more money, but I just want to make sure that the community understood that we view the funds that we receive from the

Home Loan Banks to fund our budget as a sacred trust and as a public trust, and we use them with great care and we look at them and their expenditure with great seriousness.

CHAIRMAN CASTANEDA: Good point, Director Mendelowitz. Okay. Would anyone like to make the motion to approve the Finance Board Fiscal Year 2005 Budget?

DIRECTOR LEICHTER: I so move.

[Motion made.]

CHAIRMAN CASTANEDA: Thank you, Director Leichter. The Secretary will please call the roll.

MS. GOTTLIEB: On the motion before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. GOTTLIEB: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. GOTTLIEB: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. GOTTLIEB: Chairman Castaneda?

CHAIRMAN CASTANEDA: Yes. The budget has been approved. Thank you, everybody.

[Whereupon, at 12:17 p.m., the open session was concluded.]