

FEDERAL HOUSING FINANCE BOARD

OPEN MEETING

Wednesday, December 15, 2004

Washington, D.C.

The Board meeting convened, pursuant to notice, at 10:03 a.m., at 1777 F Street, N.W., Second Floor Board Room, Washington, D.C.

PARTICIPANTS:

RONALD A. ROSENFELD, CHAIRMAN
ALICIA, R. CASTANEDA, DIRECTOR
FRANZ S. LEICHTER, DIRECTOR
ALLAN I. MENDELOWITZ, DIRECTOR
JOHN WEICHER, SECRETARY OF HUD DESIGNEE
CHRIS BOSLAND, STAFF
NEIL CROWLEY, STAFF
TOM DOOLITTLE, STAFF
JOHN FOLEY, STAFF
ANDRE GALEANO, STAFF
JOHN GARDNER, STAFF
TOM JOSEPH, STAFF
PAUL MANCHESTER, STAFF
JOE MCKENZIE, STAFF
DARIUS MEEKS, STAFF
KEVIN RAYMOND, STAFF
CHRISTIE SCIACCA, STAFF
SU MING YAO, STAFF
SHELIA WILLIS, STAFF

P R O C E E D I N G S

CHAIRMAN ROSENFELD: Good morning. Prior to our beginning--both the formality and the substantive aspects of our meeting, I'd like to make a couple of comments, being that this is my first day on the job.

First of all, this is a new experience for me in the sense that I've been very fortunate in the past--in other jobs that I've taken, particularly in the government, I've always followed people who were either someplace between poor and mediocre. This is new in the sense I'm following someone who I think has been absolutely superb as Chairwoman. Alicia has done, in my opinion, and I think in the opinion of very knowledgeable people in this community, an extraordinary job. I think she has brought civility to what was a very difficult situation. I know in having met Allan and Franz, they certainly have expressed their appreciation for the leadership and the change in climate that Alicia has been able to foster. I think she has been forthright and extraordinarily competent in dealing with the issues that have come before her.

So, I have--although I suspect literally they're probably little shoes--the reality in my mind is I have big

shoes to fill. And I certainly look forward to her continued help and guidance over the next weeks and months and years. So, thank you, Alicia, and we're going to be partners for a long time.

Speaking of being partners, let me speak to our members of the Board here.

I've been around now a long time, in both the public sector and the private sector. And I've operated in a variety of capacities. But the most significant structure in which I have operated, both from the standpoint of enjoyment as well as productivity, has been a partnership structure rather than a corporate structure. I don't really care a great deal about corporate structures or about titles. I view the people with whom I associated in a leadership level as my partners.

That has a number of significant aspects to it, beyond just the semantics.

Number one, I want you involved. Number two, I value your opinions and certainly I respect your experience. Where appropriate, we will decide things and talk about things collectively. Where a call has to be made, I'll make a call. But I want you to know that I really do view you as

partners, and it will be our intent to work together in formulating decisions. And we will make decisions. Procrastination is not really part of our modus operandi.

I really believe in a role such as Chairman of this organization that our regulating activities and our ethical-type issues and our legal-type issues are really the heart and soul of what's done here. I have enormous respect for the career people who conduct those activities. Having been in government now for some period of time in various capacities, when I say they are the heart and soul of the business, I really believe that.

I want, without question, the activities of our regulatory aspects to be the gold standard. We here at the Housing Finance Board should be, and we want to be, the absolute very best in what we do. And that is fundamentally how we've tried to conduct business at other governmental organizations which I've been, most recently at Ginnie Mae.

My personal style is fairly easy going. For those of you in this room, let me--do you all have pencils? Let me give you the phone number. It's XXX-XXXX. That's my home phone number.

You'll find that I'm not going to show up here at seven o'clock in the morning to impress you or stay 'til nine o'clock at night to impress you. I'll come in at an appropriate time. I'll leave when I'm done. And if you want to meet on Saturday or Sunday or the middle of the night, call me. I'm always available; always available. And incidentally, I tend to get your phone numbers, too, so I'll call you if there's something to talk about.

I don't want any of my partners to ever make an appointment to see me. You don't need an appointment to see me. You see me whenever you want to see me. And I'm going to see you whenever I want to see you. It's--that's just the way we do business.

I will tell you that I don't know whether I'm-- certainly have some folks with me. Somebody may have the title Chief of Staff. I don't know. But I will tell you there will never ever be a buffer between you and me. Whatever you want to tell me, you tell me directly. You don't go through anybody. Okay. That's the way I think you deal with partners. And that's how I intend to deal with you.

Now, my goals here are really very simple: I want to be the very best we can be in everything we do. I want to fulfill our responsibilities as required by our enabling legislation. And I think we can do that.

I think we will need to and we will respect each other. And quite frankly, at the end of the day, I think we're going to have fun. And I'm looking forward to a very productive few years with my new colleagues.

With that, let me begin the more formal aspects of the meeting.

I guess I already said good morning. I call this meeting of the Federal Housing Finance Board to order.

As today's agenda states, the purpose of today's meeting is to conduct a closed session to review a periodic update of examination program development and supervisory findings.

Very well. I guess--am I supposed to say something else in here? No. Very, very well.

Now, let's move on to the public vote to approve the closed portion of today's meeting. A vote required by the Government by the Government in the Sunshine Act and Finance Board regulations.

As announced--as the announced agenda states, the closed portion is a periodic update of examination program development and supervisory findings. The Sunshine Act, in Section 522(b)(c)(8) of the U.S. Code and Finance Board regulations, and Section 912.5(b)(1) specifically allows 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 any point, I would ask for a motion to both close that portion of this meeting, dealing with the exam programs and supervisory findings, and to seal the transcript and record of this portion of the meeting.

Director Weicher?

MR. WEICHER: 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 first went 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?

MR. LEICHTER: Yeah. Mr. Chairman?

CHAIRMAN ROSENFELD: Yes, sir.

MR. LEICHTER: Yeah. Before we vote on the motion, the first thing I want to do is to welcome you as the Chairman of the Federal Housing Finance Board. And we really look forward to working with you. I hope that your comments that you just made a few minutes ago were on the record, because I thought it was such a good statement of the goals that you have and I think it gives us a lot of comfort that your coming here and will provide the sort of leadership that this agency has had in the last--with our last Chair; and that this agency needs.

You bring vast experience to this job, both in the private sector and in public service. You and share at least one thing in common: we both went to the same law school, although I am your senior.

But I had the chance to find out something about you, and you and I had a session together that really whetted my appetite working with you. I think as the statement you just made showed, you're a no nonsense person, plain speaking, direct. There's no pretension, and the commitment that I know you're going to bring to this job is going to be very helpful to all of us.

So, we look forward very much to working with you collegially, collaboratively, cooperatively. This is an important agency. We have a big job to do. One of the things that surprised me when I first came here is how small our staff was, considering the responsibilities that this agency has. But what I've also learned is that we have an extremely dedicated staff, and, as you will find out, they're not only dedicated, they very competent. They really do an excellent job.

I also want to express my gratitude and thanks to Chairwoman Castaneda for her leadership over a very busy period. And I'm going to particularly acknowledge the charm and grace that she brought to the position. She really took over an agency that needed her sort of calm leadership, and, as you rightly said, Mr. Chairman, she brought civility back

to this agency, and during her very brief tenure, she really had some very significant accomplishments.

We passed a regulation that provided for the registration of the Federal Home Loan Banks with the SEC, no mean accomplishment. We had two regulatory agreements, and a lot of other issues that were dealt with, and some which remain to be dealt with.

And I just need to make one brief statement about one issue, which, frankly, I wanted to see on the agenda today, and that was the request of the--that Director Mendelowitz and I made that we act on the appointment of the Public Interest Directors. And we had made that request on December 3rd, and considering the process that we've had in this agency, this really should have been on our agenda. But the main reason it should have been on our agenda is because we have a statutory obligation to make the appointments of public interest directors. If we fail to do that by the end of this year, we will have three banks that will lose their chairmen. Actually, two, but there's also somebody who has just been elected chairman, whose term as a Public Interest Director will expire. So, you will have the Bank of Cincinnati, the Bank of Seattle, the Bank of Atlanta

without chairmen. There are six vice chairmen whose terms expire. So, we really need to address this issue.

We have made a proposal of a slate of Public Interest Directors. It is, I think, a very good slate, and I just want to point out, it is not partisan. It is a slate that includes many of the people who have been appointed the last three years.

I know you're new to this. I also know that you're going to, as I just said to you a few minutes ago, you're going to hit this job running so that you'll have a chance to acquaint yourself with this issue. Maybe we can find some way to maintain the current Public Interest Directors in office until we really have a time and you have an opportunity to acquaint yourself with the issue. But it is something that we need to address.

Let me again say how very happy we are to be working with you, and we look forward to your leadership and I think we will have fun and do a good job. Thank you.

CHAIRMAN ROSENFELD: Thank you, Franz. I appreciate that.

As it relates to the motion at hand, I don't see any objection to the motion, so--

MR. MENDELOWITZ: I--

CHAIRMAN ROSENFELD: Oh. I'm sorry.

MR. MENDELOWITZ: I also want to make some comments.

CHAIRMAN ROSENFELD: Oh. I'm sorry.

MR. MENDELOWITZ: I could in the interest of efficiency just say everything Franz said goes for me, except for the part about having gone to the same school as you. But I, as--without sounding like an echo, I do want to welcome you to the Board and to tell you how much we all look forward to working with you. You bring a wealth of skills and experience and talents, which I think will serve the Finance Board and the whole banking system well, and we look forward in the same spirit that you articulated to working together.

Secondly, I want to express my appreciation to Chairman Castaneda for her outstanding leadership, both the past time of her tenure as Chair. She took over the Board at a--I think a critical juncture in the history of the Board, and she identified a number of critical issues and problems that needed to be addressed and she moved very quickly to address them.

One was the issue of morale within the system. I have to say that within the Finance Board, I would say morale was probably at a low point when she became Chair. And she moved very quickly to do the right things when it came to building the institutional structure of the agency and recognizing the talents and contributions and the hard work of the staff in a way that I think raise morale and contributed to the effective and efficient operation of the agency.

Secondly, she has been an absolutely delightful colleague to work with. Gracious. Intelligent. Hard working. I always used to joke with her that she was the student in school who all the other students used to hate, because she was the one who would work 24-hours a day, seven days a week to read everything and learn everything. And she set a very high standard for the competition. And I really believe that we worked together in a way that is emblematic of how a Board should work together.

When there was an issue that we agreed on, we worked very hard to try to figure out the best way to do it together, and when we disagreed on an issue, I think we were able to demonstrate to everyone that you can disagree on an

issue on the merits without being disagreeable. And I think that's a standard that we should all pledge to and look forward to operating according to as we go forward on the Board.

Alicia, thank you. It's been a pleasure, and I really look forward to continuing to work together as colleagues and as friends.

MS. CASTANEDA: Thank you, Allan. Thank you so much.

MR. MENDELOWITZ: The last issue I want to get to is the issue of Public Interest Directors. Director Leichter has given a bit of a history of some of the things we've covered. But I want to really weigh in on the important role of corporate governance within the Home Loan Bank System.

There has been a very, very significant change in the role of corporate governance in the Home Loan Bank system over the past five years. And that change has been the result of several key aspects or key elements.

One is the passage of Gramm-Leach-Bliley, which gave the Home Loan Bank Boards greater independence and responsibility for overseeing their businesses.

And secondly, the growing size and complexity of the balance sheets of the Home Loan Banks. The Boards have greater responsibility than they had in the past, and secondly, they have greater challenges because of the size and complexities of the balance sheet.

When I came to the Home Loan Bank System, I spent the first six months that I was here, among other things, meeting with every single one of the boards of directors of the 12 banks, and I came away convinced that a critical safety and soundness issue for the Finance Board was the strengthening of corporate governance.

And, as a result of that realization, I undertook a number of initiatives, and one of them led to the staff's completion of the system wide single issue audit on the high risk issue of corporate governance. And I strongly commend the staff for their outstanding work on that audit report, and believe that it should be at the top of the list of things you read to try to understand the issues that are before the Home Loan Bank--I'm sorry--the Finance Board with respect to corporate governance and the Home Loan Banks.

And so, the issue of pointing--appointing Public Interest Directors takes on really a great significance

because a complete board is critical to the ability of a board to function effectively and the corporate governance responsibilities.

But, in addition to that, Home Loan Banks require a strong slate of Public Interest Directors for effective corporate governance for a number of key reasons that are different than the reasons that you may think of when you think of a publicly traded company and the responsibilities of a Board of Governors.

One is the fact that the Home Loan Banks as government-sponsored enterprises, receive billions of dollars of de facto subsidies because of their GSE status. The elected directors are owner members. And they have an interest in their own responsibilities to the institutions through which they come, as well as the fiduciary responsibility to the Home Loan Banks.

The appointed directors have an unambiguous, unconflicted responsibility to assure that the Home Loan Banks fulfill the public mission and objectives and responsibilities that they have that justify the subsidies they receive.

So, the Public Interest Directors are critical in that regard.

Secondly, because of the size and the complexity of the balance sheets, the ability to appoint directors is one of the ways in which we as the oversight agency are able to ensure that there is the full range of complete skills on each of the Home Loan Bank Board necessary for effective corporate governance. And so, we need to pick Public Interest Directors very carefully to ensure that each bank has the full range of skills necessary for effective corporate governance.

And then third, there is the issue of corporate governance of a cooperative, where there is a challenge for elected members to sort of sort through all the conflicting objectives and responsibilities and interests they have, and having the Public Interest Directors there I think is important to ensuring that as they sort through those conflicting responsibilities and interests that they do come out with the right answer.

And so, I realize today is your first day, and, as much as I wanted to deal with this issue at today's Board meeting, in fairness to you, I don't think we can sort of

say we should vote on the list of nominees. But I think that we have to in the next couple of weeks think very carefully how to assure continuity of expertise and knowledge in the corporate governance of the system, and then move as expeditiously as possible to assure there is a full complement of directors for the Home Loan Banks for the coming year who do possess the necessary range and set of skills to assure that we will have corporate governance that meets the standard that we think is necessary. Thank you.

CHAIRMAN ROSENFELD: Allan, first of all, let me thank you for your comments early on, and then also thank you for your consideration. Given the significance and the complexity of the issue and obviously my--it's not like my first day. It's my first hour. And I do appreciate that consideration.

Proceeding with the agenda--

MR. WEICHER: Mr. Chairman?

CHAIRMAN ROSENFELD: Yes.

[Laughter.]

You could have taken a number. I mean.

[Laughter.]

MR. WEICHER: I just wanted to join my colleagues in thanking Alicia, Chairman Castaneda, for the effective leadership she has shown over this last--over this last year as the Board has dealt with important regulatory issues and important policy issues. And as both Franz and Allan have said, you've provided leadership and comity in--

MR. MENDELOWITZ: C-o-m-i-t-y.

MR. WEICHER: Right.

MR. MENDELOWITZ: Not c-o-m-e-d-y.

MR. WEICHER: Comity. C-o-m-i-t-y. And created a collegial working environment.

Let me also say that, unlike my colleagues, I have worked with you before; was working with you yesterday, as a matter of fact. And, as some--as you may or may not know, we also worked at HUD together with Secretary Kemp in the Administration of the first President Bush. And so, let me simply say that it was a pleasure to work with you when you were a Secretary. It was a pleasure to work with you when you were a President. And it's a pleasure to work with you as your Chairman.

CHAIRMAN ROSENFELD: Thank you, John.

MS. CASTANEDA: I may have to say something.

[Laughter.]

This is going to be short. I promise you. I do want to take this opportunity to thank my colleagues and all the Finance Board employees for making my tenure this past year as the Chairman such a rewarding and educational experience. And I do want to welcome Chairman Rosenfeld. I know with your experience, your background, you will be a tremendous addition to the Finance Board, and I'm looking forward to work with you and tackle all of these important issues that we have ahead of us. Thank you, Mr. Chairman.

CHAIRMAN ROSENFELD: Thank you, Alicia. I'm inclined to quit now while I'm ahead.

MS. CASTANEDA: Now, we can move on.

CHAIRMAN ROSENFELD: Now, we can move on. With regard to the motion as to a closed meeting, I don't see any objection. The Secretary will please call the role on the motion.

THE SECRETARY: On the motion before the Board, Director Leichter, how do you vote?

MR. LEICHTER: Yes.

THE SECRETARY: Director Castaneda?

MS. CASTANEDA: Yes.

THE SECRETARY: Director Mendelowitz?

MR. MENDELOWITZ: Yes.

THE SECRETARY: Director Leichter?

MR. LEICHTER: Aye.

THE SECRETARY: Chairman Rosenfeld?

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

[Whereupon, at 10:25 a.m., the Open Board Meeting adjourned.]