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# FEDERAL HOUSING FINANCE AGENCY



## NEWS RELEASE

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For Immediate Release  
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### **FHFA Issues Consent Order for Seattle FHLB**

**Washington, DC** – The Federal Housing Finance Agency (FHFA) and the Board of Directors of the Federal Home Loan Bank of Seattle (Board) have agreed to the stipulation and issuance of a Consent Order by FHFA that resolves certain outstanding capital and supervisory matters.

The Consent Order sets forth requirements for capital management, asset composition, and other operational and risk management improvements. Additionally, FHFA and the Board have agreed to a Stabilization Period that ends upon the filing of the Bank's June 30, 2011 financial statement. During this period, the Seattle Bank's classification as undercapitalized will remain in place. Subsequently, the Bank may begin repurchasing member stock at par, upon achieving and maintaining financial thresholds established by FHFA as part of the agency's supervisory process.

The Consent Order and associated agreement with the Board constitute the Bank's capital restoration plan and fulfill FHFA's April 19, 2010 request to the Seattle Bank. The request called for a business plan with steps the Bank would take to resume timely repurchases and redemptions of member capital stock and to refocus the Bank's business on advances supporting housing finance and community development.

Attachments:  
Stipulation and Consent to the Issuance of a Consent Order  
Consent Order

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*The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than \$5.9 trillion in funding for the U.S. mortgage markets and financial institutions.*



**WHEREAS**, the Bank is organized as a member-owned cooperative and the investment of the member-owners in the Bank protects the Bank's debt holders;

**WHEREAS**, as a member-owned cooperative, the Bank must treat member-owners consistently and the five year stock redemption waiting period, contained in section 6(a)(4) of the Bank Act, 12 U.S.C. § 1426(a)(4), provides for sufficient time for potential losses from activities undertaken at a point in time to emerge and be the responsibility of all the shareholders rather than rewarding the first to leave and imposing any realized losses on the remaining members;

**WHEREAS**, the Bank has sought to restore its ability to return capital at par to its member-owners and to do so would require, for the current time, a continued suspension on any and all return of capital for a Stabilization Period, commencing on this date and ending on the date of the filing of the Bank's June 30, 2011 financial statements with the Securities and Exchange Commission;

**WHEREAS**, if certain minimum financial and operational metrics are satisfied after the Stabilization Period, capital may begin to be returned to members at par on a pro-rata basis;

**WHEREAS**, at such time as the Bank has returned to a safe and sound condition as determined by FHFA, redemption requests will be satisfied at par in the order the request was received for members that will have already satisfied the five year redemption notice period;

**WHEREAS**, the Bank and the Agency wish to resolve matters related to the Bank's capital and stock and other supervisory concerns, including matters relating to improvement of its asset base, capital adequacy and retained earnings, risk management, senior management, information technology, compensation practices and remediation of examination findings;

**WHEREAS**, to that end, the Agency has determined that it is necessary for the Bank to take certain actions to remedy the unsafe and unsound practices and its supervisory concerns; and,

**WHEREAS**, the Bank, desiring to cooperate with the Agency without the need for administrative or enforcement actions by the Agency and for the purpose of resolving this matter and in the interest of addressing immediately any matters that could adversely affect the interests of members of the Bank, hereby consents to the issuance of the accompanying Consent Order (“Order”).

**NOW THEREFORE**, in consideration of the above, the Agency and the Bank, through the Chairman of the Board of Directors acting upon resolution of the Board of Directors, hereby stipulate and agree to the following:

Article I

Jurisdiction

(a) The Bank is a Federal Home Loan Bank as defined in section 2 of the Bank Act, 12 U.S.C. § 1422 and as such is subject to the regulation and oversight of the Agency pursuant to sections 1311 and 1313 of the 1992 Act, 12 U.S.C. §§ 4511 and 4513.

(b) The Agency has authority pursuant to the Bank Act and the 1992 Act, as amended by the Housing and Economic Recovery Act of 2008, to initiate and maintain an administrative proceeding against a Bank pursuant to 12 U.S.C. § 4631.

(c) The Bank, without admitting or denying that grounds exist to initiate an administrative enforcement proceeding against the Bank, and in accordance with section 1371(f) of the 1992 Act, 12 U.S.C § 4631 (f), hereby consents and agrees to the issuance of the Order by the Agency.

(d) The Bank further agrees that the Order shall be “an order issued upon consent,” as that phrase is used in Section 1371(f) of the 1992 Act, 12 U.S.C. § 4631(f), as amended by HERA, and shall be effective upon issuance by the Agency.

(e) Upon issuance, the Order shall be fully enforceable by the Agency in accordance with the authority and procedures set forth in Subtitle C of the 1992 Act, 12 U.S.C. §§ 4631-4642, as amended by HERA and with any other supervisory powers afforded the Agency under the Bank Act, the 1992 Act or any other applicable statute.

## Article II

### Waivers

In entering into this Stipulation and Consent to the Issuance of an Order, the Bank expressly waives each of the following:

(a) the right to the issuance and service of a Notice of Charges pursuant to section 1371 (a) of the 1992 Act, 12 U.S.C. § 4631(a), as amended by HERA, and 12 C.F.R. § 908.4(a);

(b) all rights to a hearing on the record or a final agency decision pursuant to Section 1371 (c) and 1373 of the 1992 Act, 12 U.S.C. § 1431(c) and 4633, as amended by HERA, and 12 C.F.R. §§ 908.4(b)(1) and 908.9;

(c) any and all procedural rights available in connection with the issuance of the Order;

(d) the right to seek judicial review of the Order pursuant to 12 U.S.C. § 4634 and 12 C.F.R. § 908.10, or otherwise to challenge the validity of the Order; and,

(e) any and all claims against the Agency, including its employees and agents, and any other governmental entity for the award of fees, costs or expenses related to the Order, whether arising under common law, federal statutes or otherwise.

### Article III

#### Miscellaneous

(a) The Bank agrees that the provisions of this Stipulation and the Order shall not inhibit, estop, bar or otherwise prevent the Agency from taking any other action affecting the Bank if, at any time, the Agency deems it appropriate to do so in order to fulfill its statutory supervisory responsibilities and that the Agency will transmit such guidance as it deems appropriate to provide direction to the Bank in meeting the obligations of the Order.

(b) The Bank agrees that, except as may be specifically set forth in the Order or in any future amendment thereto, the Bank's consent to issuance of the Order does not release it from any obligations that may have been or may be imposed on it by any rule, regulation or order issued by the Agency or by any condition imposed in writing for any approval granted by the Federal Housing Finance Board.

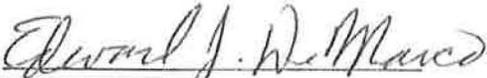
(c) The Bank further agrees that, notwithstanding the absence of mutuality of obligation or of consideration or of a contract, the Agency may enforce any of the commitments or obligations herein under its supervisory and enforcement powers conferred by 12 U.S.C. § 4511, 4513 and 4631-4642 and 12 C.F.R. § 908.11, and not as a matter of contract law.

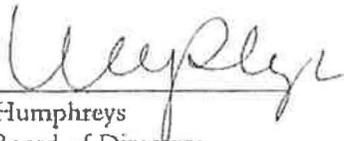
(d) The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

(e) All references to the Agency in this Stipulation and the Order shall also mean any of the Agency's predecessors, successors or assigns.

(f) This Stipulation and the Order shall remain in effect until terminated, modified or suspended in writing by the Agency.

**IN TESTIMONY TO THIS STIPULATION AND CONSENT TO ISSUANCE OF A CONSENT ORDER**, the undersigned, authorized by the Agency and by Board of Directors of the Bank as its representative, have hereunto set their hand, this 25th day of October 2010.

  
Edward J. DeMarco  
Acting Director  
Federal Housing Finance Agency

  
William V. Humphreys  
Chairman, Board of Directors  
Federal Home Loan Bank of Seattle

**UNITED STATES OF AMERICA  
FEDERAL HOUSING FINANCE AGENCY**

**Bank Consent Order No. 2010-1**

**In the Matter of:**

The Federal Home Loan Bank of Seattle

**CONSENT ORDER**

**WHEREAS**, the Acting Director of the Federal Housing Finance Agency (“FHFA”) has determined to initiate action to address certain unsafe and unsound practices at the Federal Home Loan Bank of Seattle (“Bank”), pursuant to supervisory authorities provided under sections 1311 and 1313 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (“1992 Act”), 12 U.S.C. §§ 4511 and 4513, as amended by the Housing and Economic Recovery Act of 2008 (“HERA”), PL 110-289 Titles I-III, 122 Stat. 2654 (July 30, 2008);

**WHEREAS**, the Federal Home Loan Bank of Seattle (“Bank”) is a Federal Home Loan Bank that has been established pursuant to section 3 of the Federal Home Loan Bank Act (“Bank Act”), 12 U.S.C. § 1423, and operates pursuant to the Bank Act and the 1992 Act as such acts have been amended by HERA;

**WHEREAS**, the Bank and the Agency have entered into a Stipulation and Consent to the Issuance of a Consent Order (“Order”), dated October 25th, 2010; and,

**WHEREAS**, the Acting Director believes that it would be in the public interest to enter into this Consent Order with Bank;

**NOW THEREFORE**, the Acting Director, pursuant to the authority vested in him by the Bank Act as amended by HERA, hereby orders that:

Article I

Oversight

(1) The Board shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Order and shall submit such reports as directed by the Agency.

(2) Such reports shall be provided in such format and through such method as directed by the Agency.

Article II

Asset Improvement Program

(1) The Bank shall not resume purchasing any mortgage loan under the Acquired Member Assets Program.

(2) The Board shall submit a plan for risk mitigation acceptable to the Agency that addresses those actions to be taken to address potential further declines in the credit quality of the Bank's private label securities portfolio. Such plan shall contain any descriptions, analyses, projections, timetables and other information as the Agency may direct the Bank to provide and must satisfy all requirements and deadlines mandated by the Agency.

(3) The Board shall develop and submit a plan acceptable to the Agency, for increasing advances as a percentage of bank assets which satisfies any requirements the Agency may provide.

(4) The Board shall submit a plan for collateral risk management acceptable to the Agency. Such plan shall contain any descriptions, analyses, projections, timetables and other information as the Agency may direct the Bank to provide and must satisfy such requirements as the Agency may

provide. Such Plan must assure that the Bank has in place appropriate collateral risk management policies, complies with those collateral risk management policies, informs the Board of existing policy exceptions, and establishes a reasonable and formal time limit for delivery transitions.

(5) Upon approval by the Agency, the Bank shall immediately implement and adhere to any plan required by this Article.

### Article III

#### Capital Adequacy and Retained Earnings

(1) The Bank shall submit to the Agency, for its review and approval and in line with any guidance the Agency may provide, a capital stock repurchase plan that sets forth targets that the Bank must meet and contains any descriptions, analyses, projections, timetables and other information as the Agency may direct. The Agency shall have full access to any information employed by or generated by the Bank or on its behalf in the development of such plan.

(2) The Bank shall not resume repurchases or redemptions of its capital stock without the prior written approval of the Acting Director.

(3) The Bank shall not pay any dividends except upon compliance with the capital restoration and retained earnings plans approved by the Agency and with the prior written application to and prior approval by the Agency.

### Article IV

#### Risk Management

(1) Within forty-five (45) days of this Order, the Board shall engage an independent, outside consultant to evaluate the Bank's credit risk management policies, procedures and practices. The Bank shall submit the proposed scope of the consultant's engagement to the Agency for its

prior consideration and the Agency shall have the right to expand, revise or reject the scope of the engagement or to reject the engagement of the proposed consultant.

(2) The findings and any recommendations of the consultant shall be set forth in a written report and the report shall be provided to the Board and Agency within ninety days (90) of the consultant's engagement.

#### Article V

##### Senior Management

No personnel action at the Bank involving compensation or a material change to duties or responsibilities shall be undertaken regarding management at the senior vice president level or above without consultation with and non-objection by FHFA. Personnel actions relating to violations of the Bank's Code of Conduct, required by law or for disciplinary reasons are exempt from this limitation.

#### Article VI

##### Remediation of Examination Findings

(1) The Board shall cause management to take all necessary steps to ensure that the Bank corrects or otherwise remediates each finding in the 2010 Report of Examination ("ROE"). The Board shall submit, as required by the Agency and for Agency review and approval, an examination remediation plan. Such plan shall contain any descriptions, analyses, projections, timetables and other information as the Agency may direct the Bank to provide and must satisfy all requirements and deadlines established by the Agency.

(2) Upon approval, the Bank shall immediately implement and adhere to the examination remediation plan.

Article VII

Compensation Practices

(1) Effective immediately, the Bank shall not pay any executive officers any incentive-based compensation awards without the prior written approval of the Agency.

(2) The Board shall develop and submit to the Agency for its review and approval a revised Executive Incentive Compensation Plan that restricts excessive compensation and establishes appropriate criteria to assure that compensation is properly aligned with sound risk management and safety and soundness principles. Such plan shall contain any descriptions, analyses, projections, timetables and other information as the Agency may direct the Bank to provide and such plan must satisfy all requirements and deadlines established by the Agency. The Agency shall have full access to any information employed by or generated by the Bank or any consultant to the Bank in the development of such plan.

(3) Upon approval, the Bank shall immediately implement and adhere to the Executive Incentive Compensation Plan.

Article VIII

Information Technology

The Board must develop an enterprise-wide information technology (IT) policy that meets such requirements as the Agency may provide.

Article IX

Miscellaneous

(1) Any report or plan or other communication to be submitted by the Bank or the Board to the Agency under this Consent Order shall be sent electronically or in writing to:

Deputy Director of the Division of Bank Regulation  
Federal Housing Finance Agency  
1700 G Street N.W. 4<sup>th</sup> Floor  
Washington, D.C. 20552

The Deputy Director of the Division of Bank Regulation may designate any other Agency employee to receive any plan or report required under this Order or other communication concerning this Consent Order by notifying the Bank in writing of such designation.

(2) The provisions of this Order shall be effective upon its execution and the provisions shall continue in full force and effect until such provisions are amended, excepted, waived or terminated in writing by the Agency. The Agency may provide guidance to the Bank regarding matters described in this Order.

**IN TESTIMONY WHEREOF**, the undersigned Acting Director of FHFA has hereunto set his hand on behalf of himself and FHFA.

  
Edward J. DeMarco  
Acting Director, Federal Housing Finance Agency

October 25, 2010