



NEWS

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FINANCE BOARD APPROVES FIRST FHLBANK CAPITAL STRUCTURE PLAN

The Federal Housing Finance Board today approved the capital structure plan of the Federal Home Loan Bank of Seattle, the first of 12 capital plans that the Board is considering for approval.

“This is a notable occasion because the plan approved today will establish a permanent capital structure for the Federal Home Loan Bank of Seattle. It addresses the fundamental issues of safety and soundness and gives the Seattle FHLBank greater flexibility to provide liquidity for mortgage lending by its members,” said Chairman John T. Korsmo.

The Finance Board determined that the FHLBank of Seattle’s capital plan meets all statutory and regulatory requirements regarding capital structure and does not compromise that Bank’s safety and soundness or that of the FHLBank System.

The FHLBank of Seattle’s capital plan authorizes Class B stock (redeemable on five years’ written notice), with two subclasses. Class B(1) stock includes stock issued to a member to comply with its minimum investment requirement, plus a limited amount of excess stock. Any excess stock above the set limit either will be repurchased by the FHLBank or will be converted to Class B(2) stock, which will pay a lesser dividend rate than the dividend rate on Class B(1) stock.

Under the Seattle FHLBank’s plan, a member’s minimum investment requirement is the sum of three Stock Purchase Requirements: the Membership Requirement (.75% of a member’s home mortgage loans), the Advance Requirement (3.5% of a member’s outstanding advances), and the MPP Requirement (5% of a member’s outstanding balance of Mortgage Purchase Program loans minus the amount of stock purchased under the Membership Stock Purchase Requirement).

Prior to implementing its capital plan, the FHLBank of Seattle must obtain Finance Board approval of its internal market risk model and risk assessment procedures and controls, as is the case for all the FHLBanks. The Seattle FHLBank intends to implement its capital plan on June 30, 2002.

“Today’s action by the Board embraces change, while maintaining order – safety and soundness – within the entire FHLBank System. It represents the culmination of months of dedicated work, and yet the beginning of much more work to come.”

“This is new ground we are treading, and the people of the Seattle FHLBank have been very responsive during the process, working closely with the Finance Board staff,” said Chairman Korsmo. “The experience gained during the review of Seattle’s capital plan will serve everyone in good stead as the Board considers for approval the other 11 FHLBanks’ capital plans.”

The Gramm-Leach-Bliley Act, signed into law on November 12, 1999, amended the provisions of the FHLBank Act that relate to the capital structure of the FHLBanks. The law mandated the replacement of the existing subscription capital structure with a modern capital structure, with risk-based and leverage capital requirements that are similar to those of depository institutions.