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**FOR RELEASE:
September 12, 2002
FHFB 02-43**

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FEDERAL HOUSING FINANCE BOARD ADOPTS NEW STANDARDS OF CONDUCT

The Federal Housing Finance Board today unanimously approved new standards of conduct governing the relationship of the agency's directors, officers and employees to the Federal Home Loan Bank System.

"Today's action puts the Federal Housing Finance Board on record as supporting the highest standards of conduct for agency directors and staff, minimizing any ambiguities in how we regulate the Federal Home Loan Bank System," Chairman John T. Korsmo said. "By keeping our commitment to them, we will ensure our integrity, fairness, and impartiality."

The Federal Housing Finance Board regulates the 12 Federal Home Loan Banks and the Office of Finance. The Finance Board, like all federal agencies, is already covered by guidelines issued by the Office of Government Ethics.

Korsmo said the need for supplemental standards grew out of the changing regulatory relationship that developed after passage of the Gramm-Leach-Bliley Act in 1999. The legislation removed Finance Board authority over numerous aspects of Home Loan Bank operations.

Gramm-Leach-Bliley also mandated the 12 Federal Home Loan Banks to adopt modern, risk-based capital structures. The Finance Board completed its process of approving the new capital plans at a July 18 meeting in New York City.

"The Finance Board is no longer the senior partner in the operation of the Federal Home Loan Banks," Korsmo said. "The Board, representing the public interest, is now the arms-length regulator for the safety and soundness of the System, and these standards reflect that fundamental change."

The new standards prohibit Finance Board directors, officers, and employees from attending any official business meetings of a board of directors, committee, or advisory council meeting of an entity regulated by the Finance Board. The language does not, however, prohibit attendance before or after any such official meeting. Limited exceptions are also made for Finance Board supervisory staff.

The standards of conduct further clarify that individual Finance Board directors may not speak or act on

behalf of the Finance Board, which exercises its authority jointly.

The standards adopted today also reaffirm government rules on gift taking and reimbursement for travel, food or entertainment.

The document also clarifies that the new standards apply to the Secretary of Housing and Urban Development or his designee only in their performance of Federal Housing Finance Board-related duties, not in their HUD capacities. Action on the standards, originally scheduled for the August Board meeting, was postponed in order to add that clarifying language. HUD Secretary Mel Martinez has designated John Weicher, the assistant secretary for housing, to serve on the Finance Board.

Korsmo proposed the standards of conduct following a commissioned study of Board practices by Greg Walden, a noted ethics attorney with the Patton-Boggs law firm in Washington, D.C. Walden reviewed the rules that governed other financial regulatory agencies, as well as the practices followed by their directors.

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Federal Housing Finance Board Standards of Conduct Adopted September 12, 2002

1. *General principles.* The Federal Housing Finance Board regulates the twelve Federal Home Loan Banks and has regulatory authority and supervisory oversight responsibility for the Office of Finance. The Finance Board is not charged with managing or governing the business operations of the Federal Home Loan Banks. The Finance Board has rulemaking and adjudicatory authority, but exercises these authorities only through its Board of Directors, acting jointly. Before exercising rulemaking or adjudicatory authority, the Directors are obliged to gather facts and information in a fair and open manner. Finance Board staff assist in this task and also serve the vital function of providing information and guidance to the regulated entities. A transparent and reliable exchange of facts and views among the regulator and the regulated entities contributes to successful accomplishment of each party's mission.

Because the statutory role of the Finance Board is to regulate the Federal Home Loan Banks, the Finance Board must remain at arm's length from the Banks. The Finance Board must conduct itself in a fair, objective, and impartial manner toward each Bank and the System as a whole, particularly when engaged in rulemaking or adjudicatory functions. The Finance Board has chosen to delegate certain responsibilities to the Office of Finance and must regulate it with the same fairness, objectivity, and impartiality with which it regulates the Banks and the Bank System. Finance Board Directors, officers, and employees must always conduct themselves in a fashion that observes the different and distinct responsibilities, duties, and roles of the Finance Board and the regulated entities.

In view of the statutory role of the Finance Board and its relationship to the Federal Home Loan Banks and the Office of Finance, it is prudent to adopt certain standards of conduct to (a) ensure the integrity of Finance Board decision-making, (b) promote fairness, objectivity, and impartiality in the Finance Board's review of Federal Home Loan Bank petitions and other matters, (c) avoid inappropriate interference with or involvement in the internal operations or business of the Federal Home Loan Banks or the Office of Finance, and (d) avoid giving the appearance of impropriety from failing to maintain an appropriate distance from Federal Home Loan Banks or the Office of Finance.

These standards are not intended to restrict or otherwise affect the ability of the Secretary of Housing

and Urban Development or the Secretary's designee to discharge any statutory or regulatory responsibilities or duties other than those of a Finance Board Director.

2. Attendance at board of directors, committee, and advisory council meetings of regulated entities prohibited.

(a) *General.* Becoming knowledgeable about the regulated entities is a duty of Finance Board Directors, officers, and employees. Meeting and discussing matters with directors, officers, and employees of Banks and the Office of Finance is an efficient method of accomplishing this duty. But the different and distinct roles of the Finance Board and the regulated entities must not be ignored in acquiring information about the System and important issues facing the System. Finance Board directors, officers, and employees are permitted to meet with Bank directors, officers, or employees, subject to the Finance Board's restrictions on ex parte communications. Except as provided in subsection (b), however, Finance Board Directors, officers, and employees may not attend any official portion of a board of directors, committee, or advisory council meeting of an entity regulated by the Finance Board convened to conduct any business of the regulated entity. This provision does not prohibit attendance prior to any such meeting being called to order or after adjournment.

(b) *Limited exception for examination and related functions.* Finance Board examination staff, and other persons whose attendance is requested by the Director, Office of Supervision, may attend a board of directors or committee meeting of a regulated entity, only for the following purposes, and only for such time as necessary to accomplish such purposes:

- (1) to present a report of examination or examination findings,
- (2) to discuss such report or findings, and
- (3) to bring to the attention of or to address with a regulated entity an exceptional matter, inquiry, or request.

3. Communication with regulated entities.

(a) Finance Board Directors and their staffs, officers, and employees shall limit official written or oral communication with a regulated entity or its directors, officers, or employees to matters within the statutory authority of the Finance Board.

(b) The Finance Board exercises its rulemaking and adjudicatory functions only through its Board of Directors, acting jointly. Accordingly, individual Finance Board Directors shall neither represent nor give the appearance of speaking or acting on behalf of the Finance Board, absent specific direction from the Finance Board.

(c) This section is not intended to curtail or affect any authority specifically set forth in statute or Finance Board regulation, or the provision of informal guidance and advice to a regulated entity by Finance Board staff responsible for providing such guidance and advice.

(d) This section is not intended to limit access to information needed by a Finance Board Director to fulfill the statutory duties and responsibilities of the Finance Board.

4. Application of gift and travel policies.

(a) As a general matter, no Finance Board Director, officer, or employee may accept any gift or thing of value from a Federal Home Loan Bank, director, officer, or employee of such Bank, or any other entity

regulated by the Finance Board, because these persons and entities are considered "prohibited sources" under the Executive Branch standards of ethical conduct codified at 5 C.F.R. Part 2635.

(b) Notwithstanding the general gift restriction stated in subsection (a), a Finance Board director, officer, or employee may accept a gift of food, refreshments, or entertainment if valued at \$20 or less (not to exceed \$50 from one source per year) and any other gift or thing of value, regardless of amount, if acceptance is specifically permitted by the Executive Branch standards of conduct.

(c) No Finance Board Director, officer, or employee may be paid or reimbursed for the cost of food, refreshments, or entertainment except as authorized under the Finance Board's Official Reception and Representation Policy (Mar. 18, 2002) and its Travel Policy and Procedures (Aug. 27, 2001), and any subsequent amendments or replacements to these policies.

(d) Finance Board Directors, officers, and employees are encouraged to consult with the Office of General Counsel before accepting any gift or thing of value from any entity regulated by the Finance Board, or any director, officer, or employee of such entity.