

**Prepared Statement of Mr. Franz S. Leichter
Member-Designate
Federal Housing Finance Board**

10:00 a.m., Thursday, November 15, 2001 - Dirksen 538

Mr. Chairman, Senator Gramm, and distinguished members of this Committee, thank you very much for the opportunity to appear before your Committee. It is a great honor and privilege to be here as President Bush's nominee to the Board of Directors of the Federal Housing Finance Board.

I want to express my appreciation to you, Mr. Chairman, Senator Daschle and to my Senator who sits on this Committee and who I call a friend, Senator Schumer. I want to acknowledge the presence of my wife Melody Anderson and thank her for her support and encouragement.

I have had the distinct pleasure of serving on the Federal Housing Finance Board (Finance Board) since August 2000. It has been a productive and stimulating experience.

The Federal Home Loan Bank (FHLBank) System plays an important role in promoting affordable home ownership in America. The FHLBank System is a key source of liquidity for small community financial institutions to meet the credit needs in their communities. The role of the Finance Board is to ensure both the safety and soundness of the FHLBank System and the achievement of the public policy mission for which the System has been created.

I think we can all take pride in the System's affordable housing program (AHP), which the Congress had the foresight to enact as part of FIRREA in 1989. This year the AHP topped the billion-dollar mark.

The System continues to evolve to meet the needs of a rapidly changing financial sector. Some changes have been mandated by statute and others are the result of consolidation in the financial services industry.

The Finance Board is presently in the process of implementing a new risk-based capital structure to implement the provisions of the Gramm-Leach-Bliley Financial Modernization Act. I am pleased to say that the Finance Board met the timeframe set forth by the Congress and approved the final capital rule in December 2000 after a process in which we received input from key constituencies of the FHLBank System, including FHLBanks, its members, Congress, the Executive Branch, and trade groups. As required by statute, each FHLBank submitted a proposed capital plan by the end of October 2001. At this time, the Finance Board staff is reviewing the plans and we expect that the capital plans will be approved and in place shortly. The staff of the Finance Board deserves great credit for the professional and expeditious manner in which they have handled this capital process.

A crucial issue facing the System is how to respond to the dramatic changes that are taking place in financial markets and the implications of these changes on membership in the FHLBanks. Several institutions have petitioned the Finance Board to address directly the issue of membership changes as a result of mergers and acquisitions across the boundaries of different FHLBank districts.

In order to address the issues raised in these petitions in a System-wide manner, the Finance Board issued a Solicitation for Comments in September 2001 that focuses on the range of issues raised by the petitions. Any solutions must take into account that the financial markets have changed significantly since the System was created in 1932 to serve small savings institutions. The Finance Board looks forward to receiving comments from all interested parties to guide us in taking appropriate action within

the present statutory framework. I look forward to working with this Committee, and others in the Congress, on this important issue. The resolution of these complex issues will require a great deal of careful reflection and analysis.

In closing, if confirmed, I promise to work hard to ensure the safety and soundness of the System and to ensure that it meets its public policy mission. I would like to reiterate that it is an honor to appear before this Committee. I will continue the tradition of cooperation that has existed between the Federal Housing Finance Board and the Congress.

Mr. Chairman, this concludes my statement and I will be pleased to try to answer any questions you or the Committee may have.