

FEDERAL HOUSING FINANCE BOARD

BOARD OF DIRECTORS MEETING

OPEN SESSION

Washington, D.C.

Wednesday, April 11, 2007

ANDERSON COURT REPORTING  
706 Duke Street, Suite 100  
Alexandria, VA 22314  
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1 PARTICIPANTS:

2 Board Members

3 RONALD A. ROSENFELD, Chairman

4 BRIAN MONTGOMERY, Director

5 GEOFFREY BACINO, Director

6 ALICIA R. CASTANEDA, Director

7 ALLAN I. MENDELOWITZ, Director

8 SHELIA WILLIS, Secretary

9 Also Present

10 Neil Crowley

11 Steve Cross

12 Joe McKenzie

13 David Poston

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## 1 P R O C E E D I N G S

2 (10:00 a.m.)

3 CHAIRMAN ROSENFELD: I call this meeting  
4 of the Board of Directors of the Federal Housing  
5 Finance Board to order. Today we will have an  
6 open session followed immediately by a closed  
7 session where the Board will receive updates and  
8 examination of supervisory findings. We now need  
9 to vote to approve closing the latter portion of  
10 today's meeting as required by the Sunshine Act  
11 and Finance Board regulations. Since the closed  
12 portion of today's meeting will contain sensitive  
13 and confidential bank examination information, I  
14 would ask for a motion to seal the transcript of  
15 this portion of the meeting. Director Castaneda?

16 DIRECTOR CASTANEDA: Mister Chairman, I  
17 move to close the portion of today's meeting at  
18 which we will receive updates of examination and  
19 supervisory findings, and further, that we  
20 determine that the record and transcript of this closed  
21 portion of the meeting be kept confidential.

22 CHAIRMAN ROSENFELD: Thank you for the

1 motion. Is there any discussion of the motion?

2 Do I have a second?

3 DIRECTOR BACINO: Second.

4 CHAIRMAN ROSENFELD: Thank you, Director  
5 Bacino. The Secretary will please call the roll.

6 MS. WILLIS: On the item before the  
7 Board, Director Bacino, how do you vote?

8 DIRECTOR BACINO: Yes.

9 MS. WILLIS: Director Castaneda?

10 DIRECTOR CASTANEDA: Yes.

11 MS. WILLIS: Director Mendelowitz?

12 DIRECTOR MENDELOWITZ: Yes.

13 MS. WILLIS: Director Montgomery?

14 DIRECTOR MONTGOMERY: Yes.

15 MS. WILLIS: Chairman Rosenfeld?

16 CHAIRMAN ROSENFELD: Yes. The motion is  
17 carried, and the subsequent portion of our meeting  
18 will be closed and this transcript will remain  
19 closed and confidential. Thank you.

20 Now let us turn to the public portion of  
21 today's meeting. The first item is the  
22 appointment to the Board of Directors of the

1 Office of Finance. Who will be making the staff  
2 presentation?

3 MR. MCKENZIE: I will.

4 CHAIRMAN ROSENFELD: Thank you, Joe.

5 MR. MCKENZIE: Good morning. Before you  
6 is a resolution appointing Charles Bowsher to the  
7 Private Citizen Member of the Board of Directors  
8 of the Office of Finance. The Office of Finance  
9 is a Joint Office of the Federal Home Loan Bank  
10 principally charged with issuing and serving the  
11 Bank's consolidated obligations and issuing  
12 disclosures associated with the offering and sale  
13 of those consolidated obligations. By regulation,  
14 the Board of Directors of the Office of Finance  
15 consists of two Federal Home Loan Bank presidents  
16 and a private citizen who serves as the chair.  
17 These individuals are appointed to staggered terms  
18 by the Finance Board.

19 Mr. Bowsher has served with distinction  
20 in both public and private sectors. Most notably,  
21 he served 15 years as Comptroller General of the  
22 United States and head of the General Accounting

1 Office, now known as the Government Accountability  
2 Office. His appointment as Comptroller General by  
3 President Reagan in 1981 capped a background of  
4 experience in both government and corporate  
5 endeavors. He was associated with Arthur Andersen  
6 & Company for 25 years, except for 1967 to 1971  
7 when he served as Assistant Secretary of the Navy  
8 for Financial Management.

9           Since retiring as Comptroller General,  
10 Mr. Bowsher has served on the corporate boards of  
11 American Express Bank, DeVry Incorporated, SI  
12 International, and the Washington Mutual Investors  
13 Fund. I would note that the Washington Mutual  
14 Investors Fund is not related to Washington Mutual  
15 Bank or any of the Washington Mutual Bank's  
16 subsidiaries. Mr. Bowsher was appointed a public  
17 member of the Board of the National Association of  
18 Securities Dealers which oversees the NASDAQ  
19 system and the over-the-counter securities market.  
20 Currently he serves on the advisory board of the  
21 Public Company Accounting Oversight Board and  
22 Glass Lewis & Company.

1                   The term of the Private Citizen Member  
2 of the Board of Directors of the Office of Finance  
3 will expire on March 31, 2010. The other members  
4 of the Board are Terry Smith, President of the  
5 Federal Home Loan Bank of Dallas, and David  
6 Hehman, President of the Federal Home Loan Bank of  
7 Cincinnati.

8                   CHAIRMAN ROSENFELD: Thank you very  
9 much. Do any of the Board members wish to  
10 comment?

11                   DIRECTOR MENDELOWITZ: Thank you, Mister  
12 Chairman. I have to say that it is with great  
13 personal satisfaction that I can participate in  
14 the discussion to approve the appointment of  
15 Charles Bowsher to the Chairmanship of the Office  
16 of Finance Oversight Board. Chuck Bowsher is a  
17 man of great ability, deep commitment to public  
18 service, with a long and distinguished career, and  
19 someone who exemplifies the highest level of  
20 personal and professional integrity. The fact  
21 that someone of his stature is willing to take on  
22 this responsibility speaks well to the seriousness

1 with which the world views the Home Loan Bank  
2 system, its component parts, and the oversight and  
3 regulation that the Finance Board provides to it.

4 I can't think of anyone who is better  
5 qualified and brings more to the table in this  
6 responsibility than Chuck Bowsher, and I just want  
7 to express my appreciation for his willingness to  
8 serve.

9 DIRECTOR CASTANEDA: Allan, you've  
10 worked with him, right?

11 DIRECTOR MONTGOMERY: Yes, I worked for  
12 him for almost a decade and a half, and I have to  
13 tell you in almost a decade and a half working for  
14 him in his term as Comptroller General, he  
15 exemplified everything that one would expect from  
16 a public official and a public servant. He always  
17 attempted to do the right thing, he always treated  
18 everyone with dignity and respect, and he always  
19 brought great insight and good people around him  
20 to the task at hand. And as I said, we are quite  
21 fortunate that he is willing to serve, and Mister  
22 Chairman, I would like to recognize your role in

1 convincing him to take on this responsibility.

2 CHAIRMAN ROSENFELD: Are there any other  
3 comments?

4 DIRECTOR BACINO: Just one quick one.  
5 Obviously Mr. Bowsher is an excellent candidate  
6 and looking at his resume can prove that. I would  
7 also like to commend and thank the Chairman for  
8 recruiting him because I know he worked hard to do  
9 this. And I would also note that he is a graduate  
10 from the University of Illinois, and as I like to  
11 tell you guys all the time, anybody from Illinois  
12 or who has spent considerable time in Illinois  
13 obviously can't be all that bad.

14 DIRECTOR CASTANEDA: Are you from  
15 Illinois?

16 DIRECTOR BACINO: Yes.

17 CHAIRMAN ROSENFELD: Thank you, Director  
18 Bacino. Let me add a couple of words to what  
19 Director Mendelowitz said. I think that we at the  
20 Finance Board and that all of us at the Finance  
21 Board are entitled to take great pride in the  
22 appointment of Chuck Bowsher. Both Director

1 Mendelowitz and I have known Chuck quite well for  
2 a long time. He is a very, very thoughtful,  
3 conscientious fellow. And I can tell you that he  
4 did a great deal of background research on the  
5 Finance Board and the Home Loan Bank system prior  
6 to accepting the position and I think it is fair  
7 to say that the result of that investigation on  
8 his part revealed at least to him that this is an  
9 organization we all had the privilege of being  
10 Directors, that is, a quality group doing  
11 important work and doing it in a professional way.  
12 That's why he agreed to join the team. Had we  
13 been anything less than that, I can assure you  
14 knowing Church Bowsher he would not be on the  
15 team. So I think we all have a stake in getting  
16 him on board. Thank you. If there is nothing  
17 else, I would accept the motion to approve the  
18 resolution.

19 DIRECTOR MENDELOWITZ: Mister Chairman,  
20 I so move.

21 DIRECTOR CASTANEDA: I second.

22 CHAIRMAN ROSENFELD: Thank you, Director

1 Castaneda. Would the Secretary please call the  
2 role?

3 MS. WILLIS: On the item before the  
4 Board, Director Bacino, how do you vote?

5 DIRECTOR BACINO: Yes.

6 MS. WILLIS: Director Castaneda?

7 DIRECTOR CASTANEDA: Yes.

8 MS. WILLIS: Director Mendelowitz?

9 DIRECTOR MENDELOWITZ: Yes.

10 MS. WILLIS: Director Montgomery?

11 DIRECTOR MONTGOMERY: Yes.

12 MS. WILLIS: Chairman Rosenfeld?

13 CHAIRMAN ROSENFELD: Yes. The motion is  
14 adopted and because of my script I will repeat essentially  
15 what I said a moment ago. I want to say that we are  
16 privileged to have a person of Chuck Bowsher's  
17 stature and experience to join the Board of the  
18 Office of Finance. As the Federal Home Loan Bank  
19 system moves greater transparency and better  
20 corporate governance, his background and knowledge  
21 will be invaluable.

22 The second item on our agenda is a

1 waiver request concerning the combined financial reports  
2 of the Office of Finance. Who will be making that presentation?

3 MR. MCKENZIE: The Office of Supervision  
4 and the Office of General Counsel are recommending  
5 that you approve a resolution waiving some Finance  
6 Board regulations dealing with the Federal Home  
7 Loan Bank's combined financial reports for prior  
8 periods. I will note that the waiver affects no  
9 report after the third quarter 2006.

10 Specifically, the four regulations that  
11 we are recommending you waive are as followed.  
12 The first requires the Office of Finance to  
13 prepare annual and quarterly combined financial  
14 reports. The second requires the Office of  
15 Finance to distribute combined financial reports  
16 to all members. The third regulation requires  
17 that the combined financial reports generally  
18 conform to Regulations SK and SX of the Security  
19 and Exchange Commission. And the fourth  
20 regulation is the requirement that Office of  
21 Finance obtain an audit on the annual combined  
22 financial reports.

1           There is some history to this item.  
2       After the publication by the Office of Finance of  
3       the second quarter 2004 combined financial report,  
4       and in light of the then pending accounting  
5       restatements by a number of banks brought about by  
6       the accounting reviews associated with their SEC  
7       registration, the Office of Finance determined  
8       that the then existing combined financial reports  
9       going back to 2001 could no longer be relied upon  
10      and placed on its website a legend to that effect  
11      on each financial report from the first quarter  
12      2001 through the second quarter 2004. Further,  
13      when the Office of Finance determined that it  
14      would not provide any combined financial  
15      statements until all banks became SEC registrants,  
16      as the Office of Finance could not be sure that any  
17      financial statement information provided by a bank  
18      would not be subject to subsequent restatement.

19                In recommending the waiver, we  
20      considered the fact that each bank and the Office  
21      of Finance is providing current financial  
22      information to members, investors, and the public.

1 The Office of Finance issued the Bank System  
2 Combined Financial Report for 2005 on November 8,  
3 2006, each bank submitted its 2006 Form 10-K with  
4 the Securities and Exchange Commission on time,  
5 and the Office of Finance met the Finance Board's  
6 March 30, 2007 deadline for the 2006 annual  
7 combined financial report. We also view that it  
8 is more important for the banks to devote their  
9 limited personnel resources in their financial  
10 reporting areas to current and future projects  
11 rather than on recreating financial reports for  
12 past periods.

13 The waiver has three principal effects.  
14 First, the Office of Finance must place on its  
15 website restated core financial statements for  
16 2001, 2002, and 2003, and return to its website  
17 the previously issued combined financial reports  
18 for those years with an appropriate disclaimer,  
19 but the Office of Finance will not have to reissue  
20 combined financial reports for those years with  
21 restated financial information.

22 Second, the Office of Finance must place

1 on its website core financial statements for 2004  
2 with an abbreviated financial discussion and  
3 analysis, but it will not have to issue an audited  
4 2004 combined financial report. I would note that  
5 this provision dealing with the 2004 combined  
6 financial statement is less comprehensive than the  
7 Office of Finance's original plan dealing with the  
8 2004 combined report than it set forth in its  
9 November 8, 2006 press release.

10 Thirdly, the Office of Finance will not  
11 have to reissue quarterly financial reports for  
12 periods up through the second quarter 2004 or  
13 issue quarterly financial statements for periods  
14 up through the third quarter 2006.

15 The inability of the Federal Home Loan  
16 Banks and the Office of Finance to be able to  
17 provide within reasonable timeframes restated  
18 combined financial reports for all past periods is  
19 a serious breakdown of internal controls and  
20 indicative of the inadequate financial reporting  
21 environment. However, in recommending approval of  
22 the waiver, we know that the banks and the Office

1 of Finance are now current with their financial  
2 reporting and the costs associated with issuing or  
3 reissuing past financial reports will be excessive  
4 in light of the benefits. However, the waivers  
5 will provide that the Office of Finance will have  
6 on its website a full annual time series of core  
7 corrected financial statements and combining  
8 schedules for all the banks. I would be happy to  
9 answer any questions you may have.

10 CHAIRMAN ROSENFELD: Are there any  
11 questions or comments?

12 DIRECTOR CASTANEDA: I do have a  
13 comment, Joe. Thank you for your presentation.  
14 As the person perhaps most closely associated with  
15 SEC registration by the banks, let me just say  
16 that in a perfect world I would of course prefer  
17 that the banks have a complete, continuous set of  
18 audited financials going back in time. However, I  
19 think we have to acknowledge that what is most  
20 important for members, investors, and the public  
21 at large is to ensure that we have the most  
22 complete and best disclosures of the system's

1 financial information to date and in the future.  
2 I am going to vote yes to approve this waiver  
3 because, frankly, I would rather see us and the  
4 System put our resources into enhancing our  
5 disclosures going forward then trying to recreate  
6 the past which I think is what was your message,  
7 Joe. I agree.

8 CHAIRMAN ROSENFELD: Thank you. Are  
9 there any other comments?

10 DIRECTOR MONTGOMERY: I have a question.  
11 How much of this work is performed by contractors.  
12 You mentioned they have limited staff and time,  
13 and they are short-staffed.

14 MR. MCKENZIE: Relatively little.

15 DIRECTOR MONTGOMERY: I think you said  
16 there is a \$3 to \$4 million cost? Is that staff  
17 time?

18 MR. MCKENZIE: It's staff time, plus  
19 it's audit time. Each of the seven banks that  
20 restated would have to get audit opinions for  
21 2002-2003. The five banks that didn't restate  
22 would need audit work because the current GAAP

1 presentation is different from the GAAP  
2 presentation that was acceptable in 2002-2003. So  
3 there are relatively large costs on the restating  
4 banks and not insignificant costs on the  
5 nonrestating banks. In other cases, some banks  
6 would have to resurrect information and technology  
7 platforms that they had abandoned because they  
8 would have to recreate certain transactions from  
9 2002 and 2003 to get the appropriate valuation  
10 of derivatives, for instance. So the costs arise  
11 in a number of places.

12 DIRECTOR MONTGOMERY: So is the issue is  
13 that it's too much work for them, or I also see in  
14 here where someone said it would be of little  
15 benefit. Is that the opinion of the person who  
16 wrote the memo?

17 MR. MCKENZIE: It's the view of the  
18 Office of Finance that the inability to provide  
19 past statements is inconsequential. We don't  
20 necessarily view that. The Home Loan Banks are a  
21 trillion-dollar government-sponsored enterprise.  
22 The investors, the shareholders, and the public

1 have a right to having best practice reporting  
2 standards. We don't view the inconsequential  
3 assertion as correct.

4 To follow-up on Director Castaneda's  
5 comments, like it or not, the resources at the  
6 Home Loan Banks are limited and the choice comes  
7 down to do you use those limited resources to fill  
8 in the past history or do you use those limited  
9 resources to improve the financial reporting  
10 environment and make sure that forward-going  
11 reports are done better, and I think we come down  
12 on the side of it's probably the better use of  
13 resources to devote them to future projects and  
14 not recreating the past.

15 MR. CROSS: Could I just add one thing?  
16 The requirement remains that the financial data  
17 for the core financial statements must be  
18 available. Those are produced in accordance with  
19 GAAP, though they are not audited. Speaking for  
20 the Office of Supervision, our view was the data  
21 were most important as well as the financial  
22 discussion and analysis, the description of what

1 went on during that period which is why we are  
2 recommending that OF be required to repost the  
3 financial reports that they had put on their  
4 website previously because those have the  
5 contemporaneous discussion of what was happening  
6 in the System at the time.

7           So what is lost from this are a number  
8 of footnote disclosures and the reaudit statement  
9 from the outside accounting firms. So our view is  
10 that past information is important but principally  
11 in the form of the data and the financial  
12 discussion and analysis both of which are part of  
13 what will be available to shareholders and the  
14 public. So I would say that we probably differ  
15 with the Office of Finance to some extent on the  
16 importance we place on those matters being made  
17 available.

18           DIRECTOR MONTGOMERY: Is this common in  
19 government circles, these sorts of waivers?

20           MR. POSTON: We're a unique entity in  
21 that as we stand now, and I'm David Poston, by the  
22 way. I have not said hello. But we are a unique

1       entity in that we have SEC-registered members, but  
2       the system itself is not an SEC registrant. So  
3       we're having to make a decision much like one that  
4       the SEC or SEC staff or whatever might make a  
5       similar set of facts and circumstances.

6               MR. CROSS: And I think the answer, to  
7       the best of your ability we tried to use SEC  
8       treatment of Fannie Mae and Freddie Mac as a  
9       guidepost in how we would proceed here. For  
10       example, Fannie Mae has kept financial statements  
11       on its website even though some of those  
12       statements would have to be restated in some way,  
13       shape, or form in order for the contemporaneous  
14       management discussion and analysis to be  
15       maintained. In addition, we consulted with, but I  
16       don't want to place the onus for the decision on  
17       SEC, but we did discuss with SEC how they would  
18       handle a circumstance that was similar to this.  
19       So while I'm reluctant to say they would have come  
20       down exactly where we came down on every decision  
21       because we didn't talk to them about every  
22       decision, the framework we felt in this waiver was

1 consistent with how the SEC would operate in a  
2 situation like this, and it is reflected in part  
3 on what was required of the individual banks to do  
4 as they were engaged in restatements. For  
5 example, they did not have to go back and restate  
6 their 2001, 2002, and 2003 financial reports.  
7 That was in part because they were not registrants  
8 at that period of time. It also has influenced  
9 our decisions on the quarterly data that would be  
10 encompassed by the financial statements that have  
11 been since issued. For example, the 2001, 2002,  
12 and 2003 quarterly superseded by the 2005 combined  
13 financial report which is audited and which was  
14 issued in November of last year. Is that correct?

15 MR. POSTON: Yes.

16 MR. CROSS: So we are asserting to the  
17 Board that we think that our actions which are  
18 very specific to the unique circumstances of the  
19 Home Loan Banks in terms of a regulatory agency  
20 granting a waiver on one of its regulations. It  
21 is unique in that sense. But what our  
22 expectations of the OF are informed by what

1 others have done, principally the SEC with respect  
2 to Fannie Mae and the SEC with respect to the  
3 individual bank reports.

4 DIRECTOR MONTGOMERY: So you 100 percent  
5 believe this is the right thing to do, 90 percent?

6 MR. CROSS: I believe this is a  
7 reasonable outcome that ensures that the public  
8 and the members have access to data and  
9 discussions without requiring the banks to get  
10 audited complete financial statements for all of  
11 those missed periods. I absolutely believe this  
12 is the appropriate path to take in light of all  
13 the circumstances.

14 DIRECTOR MONTGOMERY: So it sounds like  
15 an 89 percent then.

16 MR. CROSS: Well, I thought it sounded  
17 like 100 percent.

18 CHAIRMAN ROSENFELD: Director  
19 Mendelowitz?

20 DIRECTOR MENDELOWITZ: I would like to  
21 point out that even though the banks were not  
22 registrants with the SEC during the period for

1       which we're talking about, they were under a  
2       Finance Board regulation that required them to  
3       issue SEC-equivalent disclosure documents. So the  
4       fact that they weren't SEC registrants for me is  
5       not all that convincing in terms of what we might  
6       require or not require.

7                 But where I really come out is a  
8       function of several things. One is as a regulator  
9       I always try to be mindful of the costs that we  
10      impose on the businesses we regulate. Regulation  
11      is not free and we impose costs and therefore we  
12      should be able to identify a substantial benefit in  
13      return for the costs that we impose. Secondly, most of  
14      what we're talking about relates to FASB 133, and  
15      I have not found anyone who has been willing to  
16      stand up and claim that they think FASB 133  
17      improves disclosure. There are such significant  
18      problems with FASB 133, I am not sure that  
19      imposing large costs on the system related to  
20      trying to implement FASB 133 in a period when it  
21      was under development and people were confused  
22      about it contributes a lot to transparency and

1 disclosure.

2 Third, when I do look at the  
3 restatements associated with the system pursuant  
4 to SEC registration, we have a trillion-dollar  
5 system and the net effect of all the restatements,  
6 and a big chunk of them of course were FASB 133,  
7 was only \$38 or \$39 million on a trillion-dollar  
8 system. So in the aggregate it wasn't material,  
9 although I do understand for individuals banks on  
10 a quarter-to-quarter basis there might be some  
11 jumping around that were material. So I would say  
12 that I find Director Castaneda's arguments  
13 persuasive and I am willing to support this.

14 CHAIRMAN ROSENFELD: Do any other Board  
15 members have any comments? If there is nothing  
16 else, I will accept the motion to approve the  
17 waiver request.

18 DIRECTOR MENDELOWITZ: So moved.

19 CHAIRMAN ROSENFELD: Do I have a second?

20 DIRECTOR CASTANEDA: Second.

21 CHAIRMAN ROSENFELD: Thank you, Director  
22 Castaneda. Will the Secretary please call the

1 roll?

2 MS. WILLIS: On the item before the  
3 Board, Director Bacino, how do you vote?

4 DIRECTOR BACINO: Yes.

5 MS. WILLIS: Director Castaneda?

6 DIRECTOR CASTANEDA: Yes.

7 MS. WILLIS: Director Mendelowitz?

8 DIRECTOR MENDELOWITZ: Yes.

9 MS. WILLIS: Director Montgomery?

10 DIRECTOR MONTGOMERY: No.

11 MS. WILLIS: Chairman Rosenfeld?

12 CHAIRMAN ROSENFELD: Yes. The motion is  
13 adopted. Today's action brings to a close a very  
14 important phase in the history of the Federal Home  
15 Loan Banks. All the Federal Home Loan Banks are  
16 registered with the SEC and all have filed their  
17 Form 10-K for 2006 on schedule. Furthermore, the  
18 Office of Finance filed the 2000 combined  
19 financial report. This brings financial reporting  
20 up to date by the banks and the Office of Finance,  
21 and all future financial reports are expected to  
22 be on schedule. Do any other Board Members wish

1 to comment? This ends the open session of the  
2 meeting. We will reconvene in closed session in 3  
3 minutes.

4 (Whereupon, at 10:26 a.m. the  
5 PROCEEDINGS were adjourned.)

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