FEDERAL HOUSING FINANCE BOARD

BOARD OF DIRECTORS MEETING

OPEN SESSION

Washington, D.C.

Friday, December 22, 2006

ANDERSON COURT REPORTING
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PARTICIPANTS:

Board Members

RONALD A. ROSENFELD, Chairman

ALPHONSO JACKSON, HUD Secretary

GEOFFREY BACINO, Director

ALICIA R. CASTANEDA, Director

ALLAN I. MENDELOWITZ, Director

Also Present

SHELIA S. WILLIS

JOHN P. KENNEDY

STEVE CROSS

JONATHAN LINDLEY

CHRIS BOSLAND

BILL GLAVIN

CHARLES JONES

DARIS MEEKS

J.P. GREEN

Presenter

Dan Coates

P R O C E E D I N G S

(10:00 a.m.)

CHAIRMAN ROSENFELD: I call this meeting of the Board of Directors of the Federal Housing Finance Board to order. Today we have an open session with two items, limitations on excess stock and retained earnings requirements by Federal Home Loan Banks, and appointment of Federal Home Loan Bank Directors. Now let us move on to the first item, limitations on excess stock and retained earnings requirements for the Federal Home Loan Banks. Who will be making the staff presentation?

MR. COATES: Thank you. Good morning Mr. Chairman and Members of the Board. On March 6, 2006, the Board of Directors of the Finance Board proposed a rule to address capital management of the Federal Home Loan Banks. The capital management of the banks is critical to their prudential operation, and over the years certain practices have given rise to supervisory and regulatory concerns.

The proposed rule dealt with three main elements, member excess stock, retained earnings, and the timing, amount, and form of a bank's dividends. With respect to member excess stock, the proposed rule would have limited a bank's excess stock to 1 percent of assets, required a remediation plan for any bank above the excess stock limit, prohibited payments of dividends in the form of stock, and the sale of excess stock.

With respect to retained earnings, the proposed rule would have established by formula a minimum earnings requirement for each bank, and for any bank with retained earnings below that minimum requirement, the proposed rule would have restricted dividends to 50 percent of the bank's net earnings except with the approval of the Finance Board. Finally, the proposed rule would have required a bank to base dividends on actual calendar quarter earnings.

The proposed rule was published in the Federal Register on March 15, 2006, with a 120-day comment period that closed on July 13, 2006. The

Finance Board received and analyzed 1,066 comment letters.

In light of the comments and our analysis of the issues presented in them, we today recommend revisions to key features of the proposal to limit excess stock, recommend deferral of a retained earnings regulation, and recommend clarifying language regarding the timing of the declaration and payment of dividends.

We recommend that the Board adopt a final rule providing that any bank with member excess stock greater than 1 percent of its assets may not pay a stock dividend or otherwise issue new excess stock. These recommendations differ from the proposal in that the prohibition on the payment of dividends in the form of stock or issuing stock is imposed only if a bank has or will have member excess stock above 1 percent of assets.

We also recommend that the Board adopt a provision requiring a bank to base dividends on actual not projected or anticipated earnings.

However, we do not recommend that dividends be tied to calendar quarter earnings. The original proposal needed to be clarified in that regard. It was not our intention to require banks to pay dividends only on a calendar quarter basis. The revised language makes it clear that regardless of the timing of dividends, they must be declared and paid only out of known income whether previously retained or current period.

We recommend that a retained earnings requirement not be addressed in this rule making. Retained earnings are a critical component of bank capital. We believe, however, that further exploration of alternative risk-based formulations for setting a bank's retained earnings minimum would be beneficial before adopting a final retained earnings rule.

Bank capital stock that members voluntarily hold above the amount they are required to purchase as a condition of membership or to support their activities with the bank is referred to as excess stock. Unlike required membership or activity stock, excess stock can be redeemed by members without curtailing business activities with the bank or withdrawing from membership.

Under existing Finance Board regulations, excess stock can arise in any of three ways, a purchase of bank stock in excess of the membership and activity stock requirements, the bank's payment of dividends in the form of stock, or a reduction in the members' required stock holdings such as through the repayment of an outstanding advance without a commensurate reduction in the bank's stock held by that member. The final rule limits the authority of a bank to issue new shares of excess stock if the amount of excess stock held by its members exceeds 1 percent of the bank's assets. By prohibiting paying dividends in the form of stock or otherwise issuing additional shares of excess stock, as of September 30, 2006, four banks were in that circumstance, Cincinnati, Chicago, Indianapolis, and Seattle. Of these four banks, only the

Cincinnati bank currently pays dividends in the form of stock.

Member excess stock presents two principal supervisory challenges for the banks and the Finance Board. The first challenge is the potential for capital instability, particularly when the excess stock is used to capitalize long-term assets. Many banks repurchase excess stock as soon as practicable at the request of a member, notwithstanding the provisions of the Bank Act that established 6-month or 5-year statutory redemption periods. A bank with heavy reliance on excess stock can experience a spike in capital stock redemption requests without a concomitant reduction in member activity, if the bank's performance deteriorates, or if members otherwise find it advantageous to reduce their capital positions with the bank; in combination, many banks' practices of repurchasing excess stock at the initiative of the member coupled with deteriorating financial performance creates capital instability and asset management challenges particularly if multiple large redemption requests were to be submitted in a short period of time. Further, a bank's decision to delay repurchase of excess stock such as by exercising its right to wait the full 5-year redemption period for Class B stock may be interpreted by members as a sign of a deteriorating financial position and could precipitate further redemption requests and a flight of the bank's capital stock.

There are two banks under written agreement with the Finance Board. Although the issues facing these banks are specific to each bank, a common theme underlying each bank's difficulties is the existence of large amounts of excess stock that both contributed to the bank's initial difficulties and has made the resolution of these issues a more complex undertaking.

The second challenge are the public policy concerns arising from activities that arbitrage the funding advantage that banks enjoy as government-sponsored enterprises. The bank's

GSE status permits them to borrow funds at favorable rates and invest the proceeds in nonmission-related assets, most notably, mortgage backed securities and money market investments. While these activities increase bank income, they do so while adding risk to the bank's balance sheet without furthering the bank's housing finance mission.

Critics of the practice of arbitraging GSE status to boost earnings maintain that the GSE borrowing privilege should be restricted to mission-related activities and should not be used to arbitrage the capital markets. In this light, the Finance Board in the 1990s set regulatory limits for mortgage backed securities investments. However, no limits have been set for investments in money market instruments. In the case of short-term or money market investment securities, some level of such investment is appropriate for liquidity and other purposes. High levels of excess stock, however, can create a need for the banks to create large portfolios of short, intermediate, and long-term investments to buttress earnings to provide a return to holders of the excess stock even though these investments do not necessarily further the bank system's public purpose.

The proposed rule would have required each bank to achieve and maintain a minimum level of retained earnings equal to $50 million plus 1 percent of the bank's nonadvanced assets. The proposal also would have barred banks not meeting that requirement from distributing more than 50 percent of net income as dividends except with the approval of the Finance Board. The Finance Board proposed that rule to address its concern about the low level of retained earnings within the bank system which has been a matter of supervisory concern for some time.

Although we remain firm in our belief that retained earnings are a critical component of bank capital, we also see merit in the suggestions offered by some commenters that the retained earnings requirement could be refined to correlate more closely with the risk profile of each bank. Accordingly, we plan further exploration of alternative risk-based formulations for setting a bank's retained earnings minimum. One alternative would be to tie a bank's retained earnings minimum to its risk-based capital requirement as was suggested by some commenters. We have begun to review the Finance Board's risk-based capital regulation to determine whether it should be modernized in light of the advances in identifying and managing risks that have occurred since the capital regulations were first adopted. Our review will include the evolving international capital framework. In light of those efforts, we recommend that a retained earnings minimum be addressed at a later time.

Since the issuance of Advisory Bulletin 2003-AB08 on capital management and retained earnings, system-wide retained earnings have increased from $1.2 billion in August 2003, to $3.1 billion in September 2006. Although the progress has been uneven among the 12 banks, all

12 banks have increased retained earnings. We expect further significant increases of retained earnings based on the actions and the commitments of the banks.

In light of the substantial increase in retained earnings realized or committed voluntarily since August 2003, we are not recommending that the Finance Board establish a regulatory retained earnings minimum at this time.

Finally, we recommend changes to Section 917.9 of the Finance Board Rules to require a bank to declare and pay dividends only on actual earnings. We also recommend that other proposed changes that would have required a bank to base dividends on earnings for the calendar quarter not be adopted. A bank will be able to declare and pay its dividend after consideration of its actual current net earnings for any period of its choosing.

This concludes my prepared remarks. I would be happy to answer any questions.

CHAIRMAN ROSENFELD: Thank you very

much. The length and difficulty of that presentation is very reminiscent of my bar mitzvah, so you have a sense of that that is like.

Do of the Board Members have any comments?

SECRETARY JACKSON: That was some time ago.

(Laughter)

CHAIRMAN ROSENFELD: Yes, Director Castaneda?

DIRECTOR CASTANEDA: Mr. Chairman, thank you so much. Let me first reiterate what I said at the meeting when we voted on the original proposal. I firmly believe banks should rely less on excess stock and more on retained earnings, and I still believe strongly in both aspects of that statement. Reliance on excess stock should be discouraged, and I think, Dan, you touched on a lot of these issues. As a matter of policy, GSEs including the banks should not be encouraged to be big solely for the sake of being big or for the enhanced profits that can be reaped through increased arbitrage of their GSE status by leveraging excess stock balances, particularly, given the potential volatility inherent in the optionable nature of bank stock. Conversely, and again as a policy matter, given the low initial level of retained earnings across the system, I think we can generally say that, all other things being equal, more retained earnings would be better from a safety and soundness perspective. However, as I cautioned before we put forward the proposed regulation last spring, there is a great distance to be traveled between our collective consensus on broad statements of policy in the abstract such as less excess stock and more retained earnings, and developing specific, meaningful, and defensible regulations to implement those policies.

Clearly, on the retained earnings side, we have not yet traveled that full distance and still have work to do. In fact, I am encouraged that this Board will continue to work on that proposal while simultaneously moving ahead to overhaul a risk-based capital rule.

From the time this agency began work on the retained earnings policy, I have expressed concerns that we need to ensure that we treat bank capital comprehensively and consistently, and while I do believe we need to address the composition of capital at the banks, we also need to improve our understanding and measurement of the risks on their balance sheets to ensure that any particular composition is the most appropriate.

Moving ahead simultaneously on these two fronts will in my view better ensure that we avoid any conflict between the actions we might take on either of these fronts regardless of the form the retained earnings requirement ultimately takes. However, I am still not convinced that the decision to separate the excess stock provisions from the proposal and leaving retained earnings for later date is the best way for the Finance Board to proceed. There appears to be no urgency requiring immediate action on excess stock. In fact, as retained earnings have generally been trading up, so trends in excess stock have if anything been downward including at the banks that currently exceed the 1-percent threshold. But whatever the reason, that is not the direction in which we appear to be heading.

For the record, my preference would otherwise have been to wait to take final action on excess stock at the same time we were prepared to move forward either on retained earnings or on risk-based capital through ANPR which makes the most sense or other means. Then there would be no misunderstanding among stakeholders as we have seen suggested in recent press reports, for example, that this Board remains committed to promulgating a sensible and fully defensible retained earnings regulation in the future. So I am pleased that my colleagues have at least agreed to include a clear statement to that effect in the preamble to the final regulation before us today.

Now with respect to excess stock, I do not think any of us are under the illusion that this regulation will lead to a dramatic improvement in the safety and soundness of the system. Clearly, this represents a significant albeit perhaps appropriate climb down from the Finance Board from its initial position. As the staff memorandum notes, in light of recent bank practice, the practical impact of the regulation will be at least in the near to medium term to prevent just one bank from paying a stock dividend. Nevertheless, there remains some value in the Finance Board making a clear statement of policy in the form of a regulation as to what level of excess stock will ordinarily be deemed prudent.

So at the end of the day, despite the limited practical impact I expect we will see, and notwithstanding my misgivings explained in the rule making, at this time I am prepared to support today's proposal.

CHAIRMAN ROSENFELD: Thank you, Director Castaneda. Are there any other comments? Director Mendelowitz?

DIRECTOR MENDELOWITZ: No. Is this the rerun of the bar mitzvah again?

(Laughter.)

CHAIRMAN ROSENFELD: Depends on how long you talk.

DIRECTOR MENDELOWITZ: I think it is important to state clearly again on the part of all of the Members of the Board of Directors what it is we are doing here and why we are doing it. In order to do that I believe we have to distinguish between two very different issues. One is the fundamental objective that underlay the proposed rule that was sent out for comment in March, and the second is the mechanism by which we tried to achieve the fundamental underlying objective.

Clearly, the objective behind the proposed rule in March was a recognition on the part of the Finance Board that retained earnings were an important and in fact critical component of capital and that the banks left totally to their own had tried to build up retained earnings to a level that we felt was reflective of the important role that they play. I think that the objective remains the objective of the Members of this Board of Directors which is that retained earnings are an important component of capital and we need the appropriate level.

However, the proposed rule set about to achieve or implement the fundamental objective in a way that was somewhat problematic, problematic both with respect to how the retained earnings objective was to be determined, and problematic with respect to the speed with which the retained earnings would be required to be built up. When the March proposal was adopted for comment, I spent a fair amount of everyone's time identifying a wide range of problems with the proposal including the formula for determining the required level of retained earnings and the 50-percent limitation on dividends which I felt was so severe that it had the potential for creating a crisis in and of itself where none existed.

In response to the March proposal, we

received a large number of comment letters, almost 1,100, and virtually without exception they were highly critical of the proposal. I have to say that the response to the proposal achieved two things. One is it demonstrated the wisdom of the Administrative Procedures Act, the process by which regulatory agencies receive comments on proposed rules. Secondly, I have to say that the Finance Board deserves some credit for a singular achievement, and that is everyone knows how fractious the Federal Home Loan Bank System is, 12 banks, 13 opinions usually, and I think never in the history of the Home Loan Bank System has the system ever taken a common position on anything. And I have to say we have achieved the impossible or near impossible, we succeeded in totally unifying the Home Loan Bank System, all 12 banks and the Office of Finance, in opposition to the proposal put on the table.

Going forward, I think it is important to make a couple of points. The first is we the Finance Board as evidenced by the proposal that we are considering for adoption today are responding to the credible comments that we received and we are setting aside the specifics of the proposal with respect to the retained earnings target and the 50-percent limit on dividends. Secondly, while we are setting aside specific implementation proposals that were particularly problematic, I know from my discussion with my colleagues we continue to believe that retained earnings are an essential component of capital and that as we have discussed in the material presented to the Board today, we will return to the issue of retained earnings with the objective of, one, a more defensible and a more analytically defensible approach to determining the appropriate level of retained earnings that is linked to a modernized risk-based capital system that reflects I think the significant advances in the quantification of financial risk that has come along in the past 10 years. And secondly, I think we have to face up to the significance of the comments we received with respect to the dividend limitation.

All businesses operate in an environment of risk and uncertainty. However, it is not good for a regulatory agency to add to the level of uncertainty with proposals for regulatory action that can disrupt the operations of the businesses that they oversee, and in the case of the dividend limitation, have the potential for disrupting the all-in value proposition of membership in a home loan bank. Such a draconian across-the-board limit on dividends to 50 percent going forward would be I think something beyond an appropriate regulatory action by the Finance Board, and it certainly my intention in going forward to try to assure two things. One, that the retained earnings issues remains on the agenda of the Finance Board, that the appropriate level of retained earnings be tied to a clear and credible quantification of risk, and that means in lay terms to expect losses, and a build-up rate for retained earnings that does not offend the all-in value proposition for membership, basically a build-up rate for retained earnings that reflects the appropriate level of building the required retained earnings necessary to meet our objectives without creating a crisis in and of itself or upending the value proposition. I think that pretty much covers my comments on the topic this morning.

CHAIRMAN ROSENFELD: Thank you, Director Mendelowitz. Director Bacino?

DIRECTOR BACINO: A good lobbyist doesn't let a chance go by like this one, and I have never been at a bar mitzvah, but I do understand the 2-minute warnings so I will try to fall within that.

DIRECTOR CASTANEDA: I haven't either, so you are not alone.

DIRECTOR BACINO: That's two of us. The rule that the Finance Board is considering today is substantially different than the original proposal that the Board put out for comment in March. I think this new rule responds to the comments and the suggestions that were submitted by the stakeholders in the system. With regard to the retained earnings proposal that was contained in the original rule, it has become clear that every bank has tried to comply with the advisory bulletin that the agency issued in 2003, and I am advised that the banks are now committed to objectives outlined in that bulletin and for that reason at least in this Board Member's opinion there is no need to consider that retained earnings proposal at this time.

We have committed to a rewrite of the risk-based capital rule and this may give us a better understanding of how to better meld risk and retained earnings. But whatever route we choose, and I will echo some of Board Member Mendelowitz's comments here, it is my opinion that I do not think we should use dividend limitations except only in extreme circumstances.

Reaching consensus on an issue like this can be arduous and enlightening, and this has been no exception. Some might say I have made it worse on both cases. But I would first of all like to thank Chairman Rosenfeld for his leadership on this issue. He has been responsive to the concerns that I have, and being the new kid on the block, I know that I have made the most, and he has been fair and balanced in his handling of my concerns. I would also thank my other fellow Board Members for their briefings and history of some of the issues that happened on this before I got here. Director Castaneda gave me a briefing on some of these issues from a Board perspective, and she has also created some of the best charts and graphs that I have ever seen which helped illuminate some of my positions a little better.

Secondly, I would like to thank Steve Cross and his staff for their patience and diligence in responding to the many, many suggestions that I had regarding this proposal. They have done a Herculean task and I appreciate the time that they took with me on each occasion.

Third, I would thank the Federal Home Loan Board Members and management as well as trade associations and other stakeholders who met with me to discuss this issue. Again, being the relative newcomer I assume I got the brunt of most people's comments. I met with the boards of four banks already and with seven bank presidents, and I hope to meet with the rest of them in the near future.

Finally, this is the second multiperson federal financial regulatory body on which I have been privileged to serve and I think that the ability that these agencies have to draw on the knowledge and experience of board members with varying backgrounds in the public and the private sector are a great benefit in accomplishing the mission that these agencies are set out to achieve. These boards result in improved decision making and rules and regulations that more effectively recognize the benefits and the burdens on the regulated industry, and I think this is a good example of that. And I think I stayed under 2 minutes.

CHAIRMAN ROSENFELD: Thank you, Director Bacino. Let me make a few brief comments. Shortly after Director Bacino was confirmed, he made a statement in the press that said in effect that he thought the original proposal was flawed. In retrospect I would concur with his use of language. But to his credit, and to the credit of Director Castaneda and Director Mendelowitz, rather than merely accept what became a pretty common view, they worked very diligently to produce what I think is an appropriate and intelligent resolution of this matter.

I would also like to thank Diane Casey, Ken Fine, and John von Seggern who represent important constituencies in the world in which we operate. I will tell you that none of us like hate mail, but they did make a very meaningful contribution to the dialogue that ultimately transpired and produced what is I think included here today.

And finally, I want to thank my colleagues on the Board, Director Castaneda, Director Bacino, Secretary Jackson, Director Mendelowitz, and the staff for producing I think an appropriate and very beneficial rule that in fact will help the Home Loan Bank System be what we all want it to be. And finally, I would like to thank all of you with whom I work for putting up with me which is not always easy. Again, I thank you. And if there is nothing else, I would accept a motion to approve publication of the final rule entitled Limitation on Issuance of Excess Stock and to allow staff to make technical and conforming changes to the rule. Director Mendelowitz?

DIRECTOR MENDELOWITZ: (No audible reply)

CHAIRMAN ROSENFELD: So moved. Thank you. Do I have a second?

DIRECTOR BACINO: Second.

CHAIRMAN ROSENFELD: Director Bacino, thank you. Would the secretary to the Board please call the role?

SECRETARY: On the item before the Board, Director Bacino, how do you vote?

DIRECTOR BACINO: Yes.

SECRETARY: Director Castaneda?

DIRECTOR CASTANEDA: Yes.

SECRETARY: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

SECRETARY: Secretary Jackson?

SECRETARY JACKSON: Yes.

SECRETARY: Chairman Rosenfeld?

CHAIRMAN ROSENFELD: Yes. The motion is adopted. We have taken an important step of fulfilling our statutory responsibility regarding the prudential operation of the banks. Excess stock has been at the root of significant safety and soundness issues at several banks and it presents mission issues for other banks. Setting a limit on member excess stock will help ensure that the banks remain safe and sound, appropriately capitalized and able to raise funds in the capital markets.

The second item is a resolution appointing Federal Home Loan Bank Directors. While corporate governance is enhanced by well-qualified public interest directors or outside directors, I believe that a better practice would be for the regulator not to appoint directors to entities that it regulates. As I have testified earlier, while the Congress was engaged in worthy GSE reform debate which may have affected the directorship structure, I did not believe it appropriate to act in a manner that might preempt the Congress. Because the Congress has adjourned without resolving the GSE debate, it is imperative that we act to appoint public interest directors to the banks and immediately begin the process for appointing persons who have the requisite skills and experience to be a public interest director to an enterprise that is as complex and important as the nation's housing finance as the Federal Home Loan Bank's.

Accordingly, I am recommending that we adopt a resolution appointing the class of 25 incumbent directors whose terms will expire on December 31, 2006, to fill the remaining year of the 3-year term that began on January 1, 2005. This means that the incumbent directors would serve from January 1st through December 31, 2007. Do any other board members wish to comment? Director Mendelowitz?

DIRECTOR MENDELOWITZ: Mr. Chairman, this is an issue that we have talked about extensively over the past couple of years and we have taken a winding path to get here. I do want to state again or the record that it is essential that we move on this for two reasons. The first is, it is the law. The law requires to do this and we have to uphold the law. That is our responsibility. Secondly, I firmly believe that public interest directors are critical to sound corporate governance of the Federal Home Loan Banks. They bring independence and they bring a range of skills in important areas that might not be represented on the boards of the banks and that are critical to the banks' undertaking their responsibilities. They bring skills such as expertise in affordable housing, expertise in housing generally, expertise in community economic development, and even expertise in financial management.

I would also like to recognize the efforts of the Chairman in getting this issue to the Board. Washington can be a difficult town to work in, and while we are tardy in addressing this issue, I understand the obstacles to doing the right thing and the effort needed to actually pull it off, and I do want to recognize the Chairman's efforts in this regard.

Secondly, I want to be very clear about what we are doing and what we are not doing with respect to the names before us today on which we will vote. We are not extending the terms of sitting public interest directors for 1 year. What we are doing is filling open seats on the boards of directors of the 12 Home Loan Banks that have a remaining 12 months in the terms. For those who are familiar with the arcane matters in running a Home Loan Bank, you will know that public interest directors hold 3-year terms and the terms are filled on a rolling basis so that each year in the 3-year cycle the Finance Board appoints one-third of the public interest directors. Going forward, beginning on January 1, 2007, the Home Loan Banks will have one-third of the terms representing a full 3-year term, one-third of the available terms who well represent the last 2 years of the 3-year term, and one-third of the open positions will represent the last year of a 3-year term. We will be appointing the sitting public interest directors to the latter category. They will be filling out and serving the last year of open 3-year terms.

It is important to make this point because those of you who have a long historical memory know that these are public interest directors who when their names were brought before the Finance Board 3 years ago I voted against them for good reasons. We are now in a different environment. These are public interest directors who have served for 3 years who have developed significant on-the-job training and I think continue to bring something of value to the oversight of the Home Loan Banks, and so it is appropriate to appoint them for the last year of the open 3-year terms because they continue to bring continuity and on-the-job training and expertise.

However, for the remaining positions, the remaining 3-year terms and the remaining 2 years on the 3-year terms that represent the two-thirds of the open seats, I hope that the Finance Board will move expeditiously to fill these positions with consideration of, one, the needs of the individual banks, that is, what the necessary skill mix is to fill out the boards of the individual banks so that corporate governance will go forward more strongly. And secondly, I hope that we will entertain nominations from a wide variety of sources in a nonpartisan or bipartisan effort to find truly good candidates to serve on the boards of directors of the Federal Home Loan Banks, and I am optimistic that working together we can do this.

Lastly, I would like to say I was glad to see that this issue has not gone off the radar screen. We all received letters this week from the new Chairman of the House Financial Services Committee, Chairman Frank, and the new Chairman of the Finance Committee's subcommittee that oversees the Home Loan Banks, and they raised the issue and the importance of the public interest directors on the boards of the Home Loan Banks, and I appreciate their efforts to get this board to address this issue and to do it in a responsible and successful way. Thank you, Mr. Chairman.

CHAIRMAN ROSENFELD: Thank you, Director Mendelowitz. Does anyone have any other comments?

SECRETARY JACKSON: I would say that philosophically I agree with you, but pragmatically I think we are going to have to look at the qualifications of those public interest directors that we are going to appoint. I think one of the issues that I was confronted with and still bothers me today is I am not sure that they add the value that we necessarily need on the Board, but I will agree with you, if they do then clearly we should move expeditiously. But I think us in this room will have to really take heed and evaluate the quality of the candidates that we want, and I am saying this irregardless of party affiliations. I don't care whether they are Independent, Republican, or Democrats, but we must look at the value that they add, and that is the only comment I will make.

CHAIRMAN ROSENFELD: Thank you, Director Jackson. If there is nothing else, I will accept the motion to approve the resolution appointing the class of 25 incumbent directors whose terms will expire on December 31, 2006, to fill the remaining year of the 3-year term that they began on January 1, 2005.

SECRETARY JACKSON: So moved.

CHAIRMAN ROSENFELD: Somebody has to make a motion.

SECRETARY JACKSON: So moved.

CHAIRMAN ROSENFELD: Is there a second? Director Mendelowitz?

DIRECTOR MENDELOWITZ: Second.

CHAIRMAN ROSENFELD: Would the secretary please call the roll?

SECRETARY: On the item before the Board, Director Bacino, how do you vote?

DIRECTOR BACINO: Yes.

SECRETARY: Director Castaneda?

DIRECTOR CASTANEDA: Yes.

SECRETARY: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

SECRETARY: Secretary Jackson?

SECRETARY JACKSON: Yes.

SECRETARY: Chairman Rosenthal?

CHAIRMAN ROSENFELD: Yes. The motion is adopted. I would like for the staff to recommend to us before the end of January a process which we can begin to fill the remaining vacancies among the appointed directorships at the banks with people who have the requisite skills and experience. Thank you. We are adjourned.

DIRECTOR CASTANEDA: Mr. Chairman, I would like to wish happy holidays to everybody in the room.

CHAIRMAN ROSENFELD: Thank you for mentioning that. Happy holidays.

DIRECTOR CASTANEDA: Happy holidays, everybody.

DIRECTOR MENDELOWITZ: And I would like to wish to everyone to whom it applies a Merry Christmas.

CHAIRMAN ROSENFELD: So do I. Thank you, Allen.

(Whereupon, at 10:43 a.m., the PROCEEDINGS were adjourned.)

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