TRANSCRIPT OF PROCEEDINGS

FEDERAL HOUSING FINANCE BOARD

OPEN MEETING

Pages 1 thru 96

Washington, D.C.
June 12, 2002

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FEDERAL HOUSING FINANCE BOARD

OPEN MEETING

Wednesday, June 12 2002

1777 F Street, N.W
Washington, D.C.

The Meeting was convened, pursuant to notice, at 10:43 a.m., before

BOARD PRESENT:

JOHN T. KORSMO, Chairman

JOHN C. WEICHER, Director

ALLAN I. MENDELOWITZ, Director

J. TIMOTHY O'NEILL, Director

FRANZ S. LEICHTER, Director

JAMES L. BOTHWELL

ARNOLD INTRATER

ELAINE L. BAKER

NEIL CROWLEY

PAT SWEENEY

TOM JOSEPH

SCOTT SMITH

CHARLES E. McLEAN

SHARON LIKE

MELISSA ALLEN

P R O C E E D I N G S

CHAIRMAN KORSMO: I call this meeting of the Federal Housing Finance Board to order. Today, we meet to tackle a fairly ambitious agenda. I apologize for the delay in getting started. Obviously all the directors here are very concerned about accommodating Dr. Weicher's schedule, which sometimes is difficult. I think what we will do is start with one of the items that's on the agenda that is essentially administrative and hope that by the time we get through the presentation of that item and the discussion thereon, Dr. Weicher will be here to join us for the vote on that item and then we can move into the meatier items on our agenda.

One of the items, as I say, that appears on the agenda for this meeting is consideration and approval of the annual allocation of elected directors at each of the 12 Federal Home Loan Banks for the year 2003.

With the exception of three elected directorships: a Delaware directorship for Pittsburgh; an Ohio seat for the Cincinnati Bank; and an Illinois seat for the Chicago Bank; our

Board approval will preserve the status quo for the number of directorships at each of the Federal Home Loan Banks.

As you know, the Board also has discretion to adjust the number of directors for districts with five or more states. Accordingly, this Board resolution also includes two new discretionary directorships for the Atlanta district; an elected directorship for the State of Alabama; and an attendant, appointed directorship. This action is possible because Alabama members hold more than 25 percent of the total required capital stock for the Atlanta district.

Representative Spencer Bacchus and other members of the Alabama delegation, friends of the Federal Home Loan Bank System, all brought this fact to the attention of the Finance Board, apparently, last year, and I thank Mr. Bacchus for doing so.

Staff has advised me that this action is usual and customary and that this adjustment aligns Atlanta with the four other districts that have discretionary directorships. This action will increase the Atlanta Board from nine elected directorships and seven appointed directorships to 10 and 8 directors, respectively. So, with that by way of an opening comment, let me call on the Managing Director--he may be going to say the same thing again--to introduce this agenda item and then we'll move ahead.

MR. BOTHWELL: Thank you, Mr. Chairman, and good morning to you and all the members of the Board. As you said there is an ambitious agenda today with six items, including proposed Capital Structure Plans for four Home Loan Banks. So I would just like to recognize Neil Crowley, the one on this Agency staff who is most expert on the designation of directorships to summarize it for you.

MR. CROWLEY: Good morning and, yes, Mr. Chairman, you did, pretty much, summarize my presentation. But I would, just by way of background, as you know, by statute, the board of each of the Banks has to have eight elected directors and at least six appointed directors. And each year, the Finance Board, is required to designate each of those elected directorships to a particular state and it does so based on the amount of stock that the members in each of those states is required to own as of the preceding December 31.

There are a couple of exceptions to the stock-based allocation: One is that each state must have at least one elected directorship; no state may have more than six. There is also a grandfather provision, which says, notwithstanding the stock allocation, no state may have fewer directorships than it had on December 31, 1960.

And as you indicated, for any Bank district that has five or more states, the Finance Board has the authority to increase the number of elected directorships from 8 up to as many as 13 and also has the authority to increase the number of appointed directorships to three-quarters of the number of the elected directorships.

As far as the process goes in designating or allocating the particular elected directorships to the states, the first step is to allocate one directorship to each state up to eight. For Bank districts with fewer than eight states, the remaining directorships are allocated based on the method of equal proportions. And I will defer to the Office of Policy, if there's any questions about the specifics of that.

If the stock-based allocation results in fewer seats being allocated to a particular state than are required under the grandfather provision, the Finance Board is required to allocate sufficient number of additional seats to conform to the grandfather provision.

The documents that you have before you allocate the elected directorships in accordance with the statute and the rules that I've just described.

For nine of the Banks, the directorship list is unchanged from last year. For three of the Banks--Pittsburgh, Cincinnati, and Chicago--the calculations, based on the current required holdings of bank stock, have resulted in one additional elected directorship being allocated to each of those Banks. In each of those instances, the additional directorship has resulted from an increase in the relative amount of bank stock owned by the members in a particular state, which caused that state to earn, if you will, one additional elected directorship and also caused one of the other states to be allocated fewer seats than are guaranteed by the grandfather provision. As a result, the document preserves the grandfather and adds the one additional seat that the members in those states--Delaware, Ohio, and Illinois--have earned.

As you also indicated, Mr. Chairman, the documents before you provide for the Atlanta Bank to have one additional elected directorship, which would be allocated to Alabama. The term for that directorship would be for one year, which we are doing in accordance with the Gramm-Leach-Bliley requirement that the boards be staggered by giving a one-year term, there would be three classes of six directorships each in the Atlanta district. The one additional appointed directorship would have a three-year term. I'd be happy to answer any questions you might have on this matter.

CHAIRMAN KORSMO: Any Director have any question about this proposal? Seeing none, is there a motion to approve the resolution that appears in our Board Book adopting the allocation of directors for the year 2003? Mr. O’Neill? It's been moved that we approve the allocation of directors, as submitted by the staff for the year 2003, is there any discussion of the motion? Seeing none, the Secretary will please call the roll.

MS. BAKER: On the motion before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Yes.

MS. BAKER: Director Mendelowitz?

DIDRECTOR MENDELOWITZ: Yes.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes. The motion is carried and I'm assuming that we now notify the Banks, is that right?

MS. SWEENEY: That right, by letter.

CHAIRMAN KORSMO: --of the appropriate number of directors that need to be elected next year.

MS. SWEENEY: And that, also.

CHAIRMAN KORSMO: Thank you. Well, we took care of that agenda item and John has not appeared. So, why don't we take a five-minute recess? We'll reconvene assuming that Dr. Weicher has rejoined us at that time.

[Recess.]

CHAIRMAN KORSMO: I want to recognize Dr. Weicher, so I will do that.

DIRECTOR WEICHER: Thank you, Mr. Chairman, what I want to do--I do apologize for being late and apologize to the Chairman, my colleagues, and to the staff. This is not the best meeting to be late to since we have a nice thick agenda to deal with today and I do apologize. It was unavoidable, but I know it's inconvenient for all of you and I regret that. Thank you, Mr. Chairman.

CHAIRMAN KORSMO: Thank you, John, and as Dr. Mendelowitz pointed out, we all recognize you have a day job, so we were happy to hold up.

Now, that we are all present, however, why don't we turn to what was originally item one on the agenda, and that was consideration of the amendment to the Affordable Housing Program regs.

The Board members may recall, when Secretary Martinez spoke at our Public Interest Directors' Conference, he noted that President Bush plans to designate June as homeownership month. President Bush's proclamation issued June 4, reads in part "Homeownership encourages personal responsibility and the values necessary for strong families. While homeownership flourishes, neighborhoods are more stable; residents more civic minded; schools are better; and crime rates decline. Thanks to the resources available in our nation, more Americans own homes today than at any time in our history. However, among African American and Hispanic families, fewer than half are homeowners. My Administration" this being President Bush, speaking, "is working to provide all families with the tools and information they need to accumulate wealth and overcome barriers to homeownership."

I know these are sentiments that transcend the political affiliation. I know they are goals that all of my fellow Directors on this Board share.

Certainly, through the Affordable Housing Program, the Federal Housing Finance Board has an important role it can play in providing the resources, the tools, and the information about which the President spoke. Today, we have before us a proposed regulation aimed at assisting the national goal of increasing first-time homebuyers.

Through the Affordable Housing Program, the proposal would give the Banks discretionary authority to increase the 25 percent set-aside for homeownership assistance to 35 percent for first-time homebuyers. This incremental increase of 10 percent to the existing set-aside authority would be reserved for first-time homebuyers. We've taken great care in the preamble to the proposed rule to emphasize that this increase in set-aside funds is authorized as a compliment to the Administration's initiatives to increase homeownership rates, especially among low- and moderate-income minority, rural, and immigrant households.

As Secretary Martinez noted in his comments at our Director Orientation Conference, the national homeownership rate of 68 percent is a record. But the figure is not universally shared. For example, about 47 percent of Hispanic families, 48 percent of African-American families were homeowners in 2000. That may be a record, but those figures are still well below the U.S. average. I believe this proposed regulation will allow the Federal Home Loan Banks to take additional steps to address those lower participation rates.

The preamble also notes that this increase set-aside authority could be used to assist households purchasing homes in conjunction with homeownership programs of the Department of Housing and Urban Development, such as the Section 8 Voucher Program for homeownership and the Home Program's American Dream down payment fund--important programs Secretary Martinez specifically mentioned when he spoke at our conference.

A Bank on its own discretion could allocate additional funds for its Affordable Housing Program ownership set-aside allocation toward this purpose. In proclaiming Homeownership Month, President Bush asked the people of the United States to join in recognizing the importance of providing all our citizens a chance to achieve the American Dream.

With this proposed regulation, I believe the Federal Housing Finance Board is doing its part in accomplishing precisely that. With that I will call on our Managing Director to introduce this item.

MR. BOTHWELL: Well, thank you, Mr. Chairman. As you noted, this item is a proposed amendment to the Affordable Housing Program regulation that would permit the Federal Home Loan Banks, if they wished to do so--it's a permissive proposal, it's not a requirement--to set aside additional amounts of AHP funds to assist low- and moderate-income first-time homebuyers.

And with that I would just like to ask Charles McLean, of the Policy Office--accompanied by Melissa Allen of the Policy Office and Sharon Like of the General Counsel's Office to present the proposal.

MR. McLEAN: Thank you, Jim. Good morning, Mr. Chairman and Directors. The staff is before you today to present a proposed rule amending the regulation governing the Affordable Housing Program.

The proposed rule would authorize a Bank, after consultation with it's Advisory Council to set aside annually up to the greater of $1.5 million or 10 percent of it's annual required AHP contribution to assist low- and moderate-income first-time homebuyers.

It will also authorize a Bank to set-aside up to the greater of $1.5 million or 10 percent of it's annual required AHP contribution for the subsequent year to the current year's first-time home buyer set-aside program in cases where the amount of funds applied for by members in a given year under the first-time homebuyer set-aside program exceeds the amount available for that year.

The proposed increase, discretionary funding authority would supplement the Bank's current discretionary authority to fund homeownership set-aside programs subject to the existing $3 million or 25 percent allocation cap.

The determination on whether to use the proposed increased funding authority would be in the discretion of each Bank, after consultation with its Advisory Council. If used, such increased funding must be targeted to first-time homebuyers, subject to any additional eligibility criteria adopted by the Bank for the Program.

This targeting to first-time homebuyers makes this set-aside more focused than other set-aside funding which may address broader homeownership and rehabilitation needs.

A Bank may also supplement the first-time homebuyer set-aside by targeting some or all of its current set-aside authority under the $3 million or 25 percent allocation cap to first-time homebuyers. Consistent with the current AHP regulation, the proposed rule does not define the term "first-time home buyer," leaving this to the discretion of each Bank as set forth in its AHP implementation plan.

The increase in set-aside authority is put forth as a compliment to the current national housing policy initiatives designed to increase homeownership rates, especially among low- and moderate-income, minority, and immigrant households and to assist first-time homebuyers in rural areas and on tribal lands.

To achieve this goal of broadening home ownership, the Administration has proposed or implemented a number of initiatives for assistance to first-time homebuyers, including the Self-Help Home Ownership Opportunity Program, the Section 8 Home Ownership Program Vouchers, the Home American Dream Down Payment Fund and a new FHA, hybrid, adjustable rate mortgage for low- or moderate-income, first-time homebuyers.

HUD and state and local housing authorities also are seeking to assist households in achieving homeownership through family self-sufficiency and individual development account savings programs.

An increase in the AHP set-aside allocation of 10 percent for all 12 Banks--while not affecting the total amount of AHP funding--would increase the total amount of potential funds available from the 12 Banks for down payment and closing cost assistance to first-time homebuyers by $24 million in year 2002. This amount of funding could potential assist between 2,400 and 4,800 additional first-time homebuyers.

The staff recommends that the Board adopt the proposed rule contained in the Board Book and stands ready for questions.

CHAIRMAN KORSMO: Thank you, Mr. McLean. Any questions on behalf of any of the Board members? Any questions for staff? If not, the Chair would entertain a motion to adopt the proposed rule.

DIRECTOR WEICHER: So moved, Mr. Chairman.

CHAIRMAN KORSMO: Dr. Weicher moves adoption of the proposed rule. Is there any discussion? Dr. Mendelowitz?

DR. MENDELOWITZ: I just wanted to say that I'm happy to support this resolution. One of the challenges that we face in housing policy is bringing the benefits of homeownership to those in our society who have not participated in this central element of the American Dream. The homeownership rate in the population at-large is about 50 percent higher than the rates of homeownership among this nation's minorities.

I hope that this regulatory change will increase AHP resources available to help first-time homebuyers; will make a real contribution to expanding the opportunities for homeownership, not only for first-time homebuyers in general but, in particular, for minorities and those living in rural communities where homeownership rates are far below the national average.

CHAIRMAN KORSMO: Thank you, Allen, those of us from rural areas where it's far below the national average, appreciates your comment. Is there any other discussion? John Weicher.

DIRECTOR WEICHER: Thank you, Mr. Chairman. Just wanted to say that promoting homeownership is, indeed, a central goal of the Department of Housing and Urban Development and the Administration. And during the campaign

President Bush--Governor Bush, as he was then--made several speeches outlining homeownership initiatives. You mentioned the Section 8 down payment Voucher and the American Dream Down payment Fund. And also a renewing the dream tax credit similar to low-income housing tax credit -- which is for rental housing -- a similar credit for owner-occupied housing. And the governor spoke about his initiatives during his acceptance speech at the Republican Convention. And spoke about them again in his State of the Union address, this February.

What I've noticed is that during the campaign the media never covered housing, nobody was interested in housing. They never covered any of Governor Bush's speeches, nor as far as I can see, did they cover any of the things Vice President Gore said about urban policy. There seemed to be nonpartisan blanket silence. So, I think that this is a very important regulation and I think that what we are starting to do here today should help a lot of families who probably won't know that this is helping them, but that's fine, too.

CHAIRMAN KORSMO: Is there any other discussion? Any other discussion on the motion. Hearing none, I'll call the question, the Secretary will please call the role on the question of adopting of the proposed rule.

MS. BAKER: On the motion before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Aye.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye. And the motion is adopted. And the proposed rule is adopted. Thank you. We now move, as we--well, we've heard several comments to this effect already that we tackle an ambitious agenda today, including consideration of four separate capital plan proposals, submitted by the Federal Home Loan Banks of Chicago, Cincinnati, Dallas, and San Francisco.

Excuse me, thank you to Charles and Melissa and Sharon, we appreciate you being here today.

It's fitting, I believe, let me just say that I know that some travel arrangements have already been made on the part of several of the Banks. We've got a fairly large contingent from, I think, all four of the Banks here with us today. And so, we'll try to move as expeditiously as we can.

Let me suggest that, if it's all right with people, we take up the Chicago Plan first, the Cincinnati Plan second, Dallas third, and San Francisco fourth. There's no particular magic to the order, other than the fact that I've had some requests on the part of some people who are traveling to proceed in that order. Is there any objection to that? Seeing none, we will proceed.

That having been said, let me say that let's begin, with what I believe are innovative Capital Plans submitted by the Federal Home Loan Bank of Chicago and the Federal Home Loan Bank of Cincinnati.

Members of the Finance Board staff have thoroughly reviewed both plans. In addition, this Board has held two open hearings to explore these plans in depth, one on April 11 and the second a week ago in Cleveland.

Our staff and my fellow Directors, I would guess, have devoted more time and study to these two plans, perhaps, than all the other plans approved thus far combined.

In the wake of the Cleveland hearing, the boards of directors of both the Chicago and Cincinnati have reaffirmed their submissions, choosing not to make any changes in the proposed capital plans. And have, in fact, requested that we move ahead with action on their plans today.

Our Finance Board staff has completed all necessary reviews of the capital structures of all four plans, determining they are safe, sound and legal.

Staff also has indicated that they anticipate reaching a confidence level with respect to the risk models and risk control procedures that go along with all four plans and that must be approved before any of the Banks implements their new capital structures.

In February, the Finance Board adopted a schedule for consideration of capital plans with Cincinnati and Chicago set for today's Board meeting. In light of intensive study of these plans by the Board of Directors, and the staff's positive review, I could see no constructive reason to reject board's or, excuse me, the Banks' requests to proceed with approval today and, for that reason, they appear on our agenda.

Everything I have learned from the two hearings on these capital plans re-enforces and deepens my appreciation of two fundamental facts: First, Federal Home Loan Banks are owned by and serve local banks and thrifts whose executives are closely involved in the operations of their respective Home Loan Banks.

Second, and for this point, I must acknowledge, once again, my colleague, Dr. Weicher. More important than the techniques for acquiring capital are the amount of capital available to a Bank and the risks against which that capital is held.

Capital placed on a Bank balance sheet as an activity charge for acquired member assets, operates no differently than shares purchased as a membership requirement, as a voluntary investment, or as a pre-requisite to it taking an advance. Under our regulations, all shares, all shares are equally available to the Bank in meeting standards for overall capitalization and for risk-based capital.

Each and every Home Loan Bank with a portfolio of mortgages acquired from members, their own members or those selling through another bank, must maintain risk-based capital for that portfolio. Similarly, each and every Home Loan Bank--and each and every member--are governed by the same regulations concerning redemption of stock and withdrawal of membership.

Once a member purchases a share of Federal Home Loan Stock, Class A or B, required membership share, required activity share, or voluntary share, that share may not be redeemed if needed by the cooperative to meet business objectives and Finance Board regulations.

These are established policies of the Finance Board regarding capital sufficiency.

Of course, my colleagues are certainly free to support and make a case for a different approach. But, unless the Board votes to change policy and complete a rule-making process, the four plans before us today, like all the others that we have had before us and will continue to have before us over the next few weeks, will be judged against existing policy.

All twelve plans were drafted and submitted by Bank boards of directors in good faith in anticipation that they would be reviewed and approved in light of existing policy.

The previously approved plans were held to that standard and I see no reason why that standard need be weakened or waived for consideration of the balance of the eight plans.

All four Banks on our agenda are proposing capital structures crafted by their boards to meet the letter and spirit of the Gramm-Leach-Bliley Act. The statutory language is clear and bears noting, quote: "The Board of Directors of each Federal Home Loan Bank shall submit for Finance Board approval a plan establishing and implementing a capital structure for such Bank that the Board of Directors is best suited for the condition and operation of the Bank and the interest of the members of the Bank." Unquote.

These four Banks, along with their four counterparts, we've already acted upon adhere to Gramm-Leach-Bliley by comparing capital plans that best suit the conditions and operations of their Banks and the interests of their members.

Two plans before us today, Chicago and Cincinnati, propose structures that represent a departure from the practices that dominated the Federal Home Loan Bank System before the Gramm-Leach-Bliley Act of 1999.

As a regulator, the Finance Board's primary mission is ensuring the safety and soundness of the Federal Home Loan Banks, even as their directors look for new and more responsive ways of serving their members. Congress granted each Federal Home Loan Bank considerable flexibility to define fairness within their cooperative and to manage capital accounts to meet regulatory standards.

Congress has given the Finance Board considerable authority to examine and regulate the safety and soundness of these capital structures. Congress has not endowed this Board, however, with similar power to operate and manage the Banks.

So, today, my responsibility and, I believe, our responsibility as a Board, is to ensure that the Dallas, Chicago, San Francisco, and Cincinnati Capital Plans are judged in the proper context, safety and soundness, and are approved or disapproved on the basis of existing law.

I will also be careful to maintain our focus on today's votes, which are exclusively on the proposed capital structures. If staff recommends approval of all four proposals and has a level of confidence about the subsequent tasks required before any of these four plans can be implemented, if approved.

So, let's begin with Chicago. I should note that Chairman Timmerman from the Chicago

Board and Mr. Gutzmer, who is the senior vice president and the general counsel of the Chicago Bank are here and I understand they are available if questions should arise during the course of our discussion of this capital plan.

With that, by way of introduction. Let me call, again on our Managing Director, Jim Bothwell to introduce the Plan.

MR. BOTHWELL: Thank you, Mr. Chairman. The proposed Capital Structure Plan of the Federal Home Loan Bank of Chicago involves two related resolutions.

The first of these resolutions would approve the Bank's Capital Structure Plan dated May 31, 2002, subject as you noted, Mr. Chairman, to the Bank receiving Finance Board approvals of its internal market risk model and it's risk assessment procedures and controls before the new capital structure can be implemented.

The second resolution specifies the provisions of the Finance Board's existing Financial Management Policy, or FMP, that the Bank would still be subject to upon implementation of its new capital structure.

At this time, Mr. Chairman, I would like to ask Scott Smith, the acting director of the Policy Office, who is accompanied by Tom Joseph of the General Counsel's Office, to present the Capital Structure Plan for the Board's consideration.

MR. SMITH: Thank you, Jim. Good morning, Mr. Chairman and members of the Board. Staff is requesting that the Board of Directors consider and approve two resolutions that are concerned with and constitute approval of the structure component of the Chicago Bank's Capital Plan.

Because the Bank's Plan has a six-month opt-out period, the Finance Board does not have to provide a waiver for the withdrawal of notice requirement.

Finance Board staff finds that the most recent version of the plan, approved by the Bank's board of directors on May 31, of 2002, complies with Finance Board regulations. The Chicago Plan authorizes the issuance of both Class A and Class B stock where Class A stock is Preferred.

The Chicago Plan is the first to be considered by the Finance Board that includes an A/B stock structure. The structure of the Plan, as described by the Bank, is designed to attract capital based on attractive returns, rather than formula-based requirements.

The Plan establishes a stated dividend for Class A stock, which is cumulative and preferred to Class B stock. Generally, only Class B stock will be afforded voting rights, with Class A stockholders entitled to vote only after the Bank's board of directors have failed to declare an unpaid dividend--pay the minimum dividends on Class A stock for six consecutive quarters.

On the date of implementation, all outstanding stock would be converted to Class B stock, with Class A stock being made available for purchase soon, if not immediately, thereafter.

Since the Bank contemplates a mixture of Class A and B stock, the binding capital constraints for this Bank may be any of the 4 percent leverage requirement, the 5 percent weighted stock requirement or the risk-based capital requirement.

If approved, the Bank intends to convert to the new capital structure in 24 months or less.

Implementation of the Plan will position the Bank with more permanent capital and will require that the Bank adopt a more state-of-the-art risk-management process.

Under the Capital Plan, a member's total stock investment requirement will equal the greater of it's membership requirement or its activity-based requirement. The Plan requires that each member hold stock to meet the membership requirement. The membership investment requirements are initially set at the greater of either 1 percent of a member's mortgage assets--.1 percent of a member's total assets or $10,000. However, a member's membership investment requirement is capped to be no greater than 9.9 percent of the Chicago Bank's aggregate stock outstanding.

The Plan provides ranges within which the Bank may adjust the requirement. The percentage for member mortgage assets may be adjusted between .5 and 2 percent; the percentage for member total assets may be adjusted between zero and .2 percent and the fixed dollar amount may be adjusted between $500 and $20,000.

The activity-based investment requirement for advances is initially set at 5 percent with a range of 4 to 6 percent. The activity-based investment requirement for AMA is initially set a zero percent with a range of between zero and 5 percent.

Furthermore, the Plan provides that if a member withdraws from membership or is otherwise terminated and the Bank has any AMA assets on its balance sheet from that member, the former member shall continue to hold stock equal to the lesser of 5 percent of the outstanding AMA or its membership investment requirement as of the date immediately prior to the withdrawal from or termination of membership.

The Plan provides that a member's minimum investment requirement may be fulfilled by the purchase of Class A stock or Class B stock, when available or any combination of the two.

For purposes of measuring compliance with a member's minimum investment requirement, the dollar value of each share of Class B stock will be weighted by 1.25. This weighting factor may be changed within a range of 1 to 2.

The Finance Board's rules provide that the minimum stock purchase or investment requirements established by a capital plan must be set at a level which provides sufficient capital for the Bank to comply with it's minimum capital requirements. As a part of this analysis, staff reviewed material submitted by the Bank to support approval of the plan, including pro forma financial statements, the assumptions behind these statements and the management's estimates of the amount and type of stock that would be associated with the pro forma statements. Staff analysis of the Bank's projections indicate the Bank will have sufficient capital at the moment of implementation.

Overall, staff has not identified any apparent structural flaws or other problems in the plan and the initial proposed minimum investment requirements that would prevent the Bank from maintaining sufficient capital to comply with statutory or regulatory requirements and to continue to operate in a safe and sound manner.

I'd be pleased to answer any questions.

CHAIRMAN KORSMO: Are there any questions? Director Leichter?

DIRECTOR LEICHTER: Yes, Scott, did staff make any estimate of the amount of capital that the Chicago Bank would have to raise to carry out its business plan under this capital structure?

MR. SMITH: Well, based on projections provided by the Bank, capital would have to really go up as their assets went up. I think what you're interested in is the proportion of capital that would be voluntary stock. On date of implementation, voluntary stock would be in the nature of around 40 percent of total stock.

Based on the Bank's projections, say, two years down the road with an additional, roughly, $8 billion of AMA on the books, voluntary capital would have to increase to about 59 percent, based on our estimates. That assumes that their advances increase at a relative slow pace, which is what they've put into their projections. If the advances were to increase more quickly, then voluntary capital would be as little as 53 percent and if advances were actually to decline by--these are up and down 30 percent for advances--if they were to decline by 30 percent, then voluntary could go up 67.

DIRECTOR LEICHTER: Was the plan put under any stress tests by our staff?

MR. SMITH: Well, in terms of the pro forma analysis, no, not really, I mean, we just looked at the projections and what the capital requirements would have to be. I mean, the presumption is that the Bank management has to comply with the regulations and has to have sufficient capital to meet the minimum requirements so at all time the presumptions is it would be 4 percent minimum stock.

MR. BOTHWELL: And, Franz, as this process goes forward, as you know, a big component of the risk-based capital requirement that is in our regulation is the market-risk component of that and that is based on a stress test, which is computed using an internal model of each of the Banks, but we also look at the model in those computations and we also have the capability to run those estimates ourselves with our own model here. So that is something that's going to be going on on a continuing basis, once this Capital Plan is approved and before it's implemented and possible approval of that model. So, if that's what you're asking.

DIRECTOR LEICHTER: Well, all I ask is were any stress tests taken in regard to what the Bank's situation's going to be at the time of implementation based on this capital performing. I guess Scott's answer was that it had not.

MR. SMITH: Right, I mean, in a sense, --if activities were to decline, the Bank would not get into trouble because it could always refuse to redeem stock if that stock were necessary to support the Bank. If activities were to increase or to threaten to increase at a pace that would be faster than the Bank's ability to acquire capital, well, the Bank can always effect that growth rate by adjusting prices in such a way as to discourage further activity. So, in some sense the Bank management has the ability to --

MR. BOTHWELL: I would just add that there is no element of discretion in a Bank's refusing to redeem stock if it's needed to meet the minimum requirements. I cannot redeem a stock or repurchase stock if that stock is needed to meet either a risk-based requirement or the minimum leverage requirements, that's very clear in the statute and very clear in our regulations. And it's in every plan, as well.

CHAIRMAN KORSMO: Other questions? I see your hand up Dr. Weicher? Other questions for staff? Seeing none, the Chair would open the floor for a motion to approve the Capital Plan-- the two resolutions, excuse me, approving the Capital Plan and the Financial Management Policy exemption for the Federal Home Loan Bank of Chicago.

MR. WEICHER: So moved.

CHAIRMAN KORSMO: Dr. Weicher moves the two motions. Is there any discussion?

DIRECTOR LEICHTER: Yes, Mr. Chairman.

CHAIRMAN KORSMO: Mr. Leichter.

MR. LEICHTER: During the time that we enacted the regulations on the new Capital plan and, subsequently, there was always a lot of discussion about commonality and it seemed to be generally accepted as a principle that commonality was one of the factors that would guide this Board in acting on the Capital Plans that were submitted. And there was quite a bit of discussion what did commonality mean? Well, I think we finally have come to the definition of what commonality means, which is that it means very little, if anything, and as the Chairman rightly pointed out, this is a quote, "innovative" unquote plan. I think it's one that, frankly, pushes the envelope too far. And I am concerned about its impact on the System, which is still one System. Yes, we have 12 Banks, but as we all know, the Banks are joined at the hip because of the joint and several liability. What particularly troubles me about this Plan, as I stated, in connection with the Boston Plan, which in some respects followed this model, is that there is no capital charge for the AMA activity for the Chicago Bank the MPF, which is its Mortgage Purchase Program is going to be its major activity.

I just find it somewhat contradictory and strange that there's a capital requirement for advances but no capital requirement for the purchase of mortgages. I think everybody would agree--I shouldn't say everybody, but almost everybody would agree that advances are certainly a far-less riskier asset than mortgages. I want to say that in the Cleveland hearing, I discussed this issue with the representatives of the Chicago Bank and they very earnestly argued that they thought that their mortgages that they purchased had by and large the same risk profile as the advances and I want to say that the representatives of the Chicago Bank certainly made a very strong presentation and I appreciated having the chance to discuss this with them and I want to thank them for their participation, their cooperation and certainly want to thank the president of the Chicago Bank, Alex Pollock, for always being willing to discuss his Plan, which he does with as much pride as a parent does of a new child. And I certainly want to state my great respect for him and for the Chicago Bank, but I am, as I said, troubled by this Plan because what the impact of this Plan is, it really does three things that I think are non-consonant with the System that I think we're charged with protecting and that has standards that I think are you important.

One is that the Chicago plan really erodes the cooperative nature of the System. Secondly, it's going to inevitably lead to greater risk being put on the books of the Chicago Bank and it's a Plan that relies very heavily on what the Chicago Bank calls voluntary stock, which is not permanent stock in the true being of the word.

When you ask the representatives of the Chicago Bank why are there no capital charges for your MPF activity, the answer is, if we apply capital charges, we would not be competitive.

Well, what does that mean? Competitive with whom? I assume it means competitive with Fannie and Freddie and as I said to Alex Pollock at the hearing that we held here at this Board, I don't think it's the function of the Finance Board to make Chicago or any other Bank competitive with Fannie and Freddie. I don't think that's our role. I also have a difficulty in understanding why the Chicago Bank feels that it cannot have an active and successful mortgage purchase program if there are capital charges that are associated with it. Other Banks within the System have active mortgage purchase programs; Seattle is one, just as an example. It's a Plan that we've accepted, which has capital charges in connection with their AMA activity. So I have not found a compelling reason why we should adopt a Plan that does not have capital charges for AMA activity. And I think it's been a strong principle of the System that there should be a nexus between the member that places on a risk on the books of the Bank and the capital that that member owns.

Now, the Chicago Bank has amended its Plan to try to meet the objection that I had by stating that a member cannot terminate the membership or cannot redeem stock if it still has assets on the books. But that really doesn't achieve the same effect as having that nexus between a member who puts the risk on the book and having capital that's specifically directly related to the asset at the time it's put on there. Because it means that the member has to be more cautious, the member has to have a particular interest in seeing that that is a good asset and for that reason I think it's an important principle and one that we should not lightly discard.

I also have trouble with the view that, well; it doesn't matter where the capital comes from--whether it's a capital requirement in connection with an activity, a transaction or whether it's voluntary stock. The point is--and I tried to make this on the Boston Bank plan--that our stock is not permanent stock. We're treating this voluntary stock--we're treating excess stock in this particular Plan as if it was truly permanent. It's not permanent because it's subject to five-year redemption. And I don't feel it's an appropriate answer to say, well, listen, if when those five years are up we're not in a position to redeem the stock, we just won't redeem it and, therefore, in effect, it's really permanent stock. I think it would be such a blow to a Bank and to the System if a notice of redemption were not acted on after the five years are over.

So, when we have a Plan, as we have for Chicago, which as our staff has just advised us eventually going to have to rely on 59 percent, I believe that was the figure that Scott stated, but it's certainly above 50 percent is going to be so-called voluntary stock, it's a radical change of how this System has functioned. And I think it's one that I don't feel comfortable with on safety and soundness grounds because we are relying on stock, which is subject to redemption.

Now, what this also does is it creates an investor class. An investor class whose interests are at odds with the interests of the members who have met capital requirements in connection with their transactions. The ones who do the traditional business of the Home Loan Bank

System which it advances. And investor class is, of course, interested in the dividend return. Unless this dividend return is going to be significant, there's no way that Chicago is going to be able to sell it's stock and one of the ways that you increase your dividends is you've got to have more profits and you make more profits by taking more risk. And here you have risk that's in large part capitalized by stock that is not really permanent stock.

I think this raises some very worrisome issues and I think some fundamental issues. As I said, I think this is a Plan that really pushes the envelope.

Let me say, I think MPF has been a good program and I commend the Chicago Bank for what it has done and, in all fairness, it should be pointed out that when this program was initiated and up to now there's never been a requirement for a capital charge in connection with MPF activity. But I think the reply to that is that this was initially done by the Board, whether wisely or not, when this was a fairly small program and it was not done with a view to having a program that's going to expand to the extent that the Chicago Plan intends to increase it under its business plan.

I think, also there's other issues that are going to be raised that I think really deserve more consideration and, maybe we would be wise not to have taken upon this plan at this time. I realize we have this schedule, and I commended you, Mr. Chairman, for moving the whole Capital process along. Nevertheless, I think when such fundamental issues are raised that affect not only the Chicago Bank but the entire System, that maybe we should have worked harder to try to work some of these out, because I don't think it would have been that difficult to work these issues out and, while I appreciate the Chicago Bank would like us to act, I think we have a responsibility not only to that Bank and its members, but to the whole System to see that we move in a deliberate careful manner and I don't feel comfortable that that was done in this instance as we move ahead. Because the issues being raised are the extent to which we exist for large institution or for smaller institutions, it depends which this whole program is going to be carried out with large institutions, the question of whether this will raise the issue of securitization. Obviously, it will. And maybe it's something that we ought to look at before we start going down the road. And, frankly, I haven't seen any green lights from institutions, policy makers in this town, that I think need to be involved in that decision.

So, just let me conclude by saying I don't think we're managing the Banks by saying these are issues that deserve your considerations. These need to be worked out and I think that we, not only have the right under Gramm-Leach-Bliley, we being the Finance Board, but I think the obligation not to allow Plans to go forward that make such significant changes in the System. And to say, well, you know, every Bank's got to meet the minimum capital requirements of Gramm-Leach-Bliley, so along the way we have this fail-safe system. Well, it's up to us to make sure that you're not going to have a Bank that under it's Plan will be challenging those minimal requirements under Gramm-Leach-

Bliley. And I think we also have the charge from Congress to impose standards and principles that have guided the System and to continue those and, as I've said before, I think Gramm-Leach-Bliley is a floor, it's not a ceiling. So I think it's perfectly appropriate for us to say, as I wish we would-we did at one time--which is that there ought to be a capital charge for AMA activity and we should not rely, to the extent the Chicago Plan does--on voluntary stock. And we should not take action that weakens the cooperative nature of the System. And we should not take action that affects not only the Chicago Bank but affects all the Banks in the System because of the interrelation among the Banks and the fact that the Chicago Plan is one that is a great variance with the principles and standards that have guided the Home Loan Bank System, very successfully, I may say for 70 years. Thank you Mr. Chairman.

CHAIRMAN KORSMO: Thank you, Director Leichter. Is there any other discussion? Is there any other discussion? Hearing none, we will--oh, excuse me Dr. Mendelowitz.

DR. MENDELOWITZ: I think that the Director Leichter's comments point out the great difficulties that I think we've all faced in trying to come to grip with these Plans. The Chicago Plan is very different from the other Plans submitted by Banks in the System to the Finance Board for approval. And not only is the Capital Plan different, the business plan, the approach to risk-management are all quite singular and they present, I think, difficult challenges to the Finance Board which we have all been struggling with and all been working through.

I am very sensitive to the concerns that Director Leichter raised and believe that he brings a lot of very serious concerns to the table that we, as regulators, need to grapple with, as we consider this Plan. As well as going forward, how we, as regulators, will stay on top of the implementation of these Plans and manage these Plans.

My own view is that, while I have many of the same concerns and hesitancies as Director Leichter, probably by a hair's breadth I come out on the other side of the issue. The Plan is unique. It does present, I think, regulatory challenges, but it is consistent with regulatory and statutory requirements and the business plan, the Capital Plan, and the approach to managing risk in terms of the policies and procedures of the Chicago Bank are consistent and do work together in what I believe to be a re-enforcing way and I hope will be able at an operating and practical level to address the concerns that Director Leichter raised.

I really appreciate the thought that he has brought to this and I really appreciate that he put these concerns on the record because we, as regulators, as I indicated, are going to have to stay on top of those issues and grapple with them to go forward.

The Chicago Capital Plan, actually, has evolved, quite significantly over time. If I remember correctly, the Plan submitted for approval today is version 29. And I do believe that as of 29 different versions evolved there were important changes made to address the concerns of the regulators. I had a number of strong reservations based on review of earlier drafts. Changes have been made over time and are now included in version 29 that have addressed some of my concerns.

One is that the Plan has, in effect, created a two-tier de facto membership arrangement whereby if you are a participating financial institution and you sell mortgages to the Bank and you decide to leave the Bank, your membership stock gets converted into an activity-based charge to stand behind any mortgages that remain on the Bank's balance sheet and you cannot get that capital back until those mortgages have run off the balance sheet.

So, while the Plan itself, does not have an ongoing membership--I'm sorry activity-based charge for mortgage sales under the MBA program, it does, in effect, have a string on capital that in the event of the departure of an institution it does get tied to the mortgages and I take comfort in that.

A second significant change in the most recent version is the adoption of a formal policy on retained earnings, which limits the payment of dividends on the Class B Capital stock to 90 percent of a moving average of the available profits on which dividends can be paid. This actually, I think, is one of those rare occasions where you kill two birds with one stone. Because the limit on Class B stock dividends is a moving eight-quarter average, the plan builds in a way of responding to vagaries in quarterly returns that are a function of the adverse impact of FAS-133 rather than the true underlying business and profitability of the institution. And I think that's good because I would hate to have Banks make sub optimum business decisions in order to keep the FAS-133 numbers looking good. I'd much rather have the Banks make good decisions on a business basis and rather than distort the business decisions for FAS-133.

The second benefit we derive from this retained earnings policy is it commits the Bank to the steady growth of retained earnings, which I believe are important for several reasons. One is, it provides, in a sense, one of the most permanent sources of capital, because retained earnings have no redemption period.

Secondly, the retained earnings can be used to capitalize assets that generate profits on which no dividends have to be paid. So I think, you know, Director Leichter raised a very serious concern when he pointed out his fear that the pressure to meet dividends demanded by holders of voluntary stock might incent the Bank to do something more risky than might be appropriate. And I take some comfort from the fact that there is going to be retained earnings there that will grow, that will capitalize the profitable assets that will, in fact, provide a basis, over time, for making it easier for the Bank to meet expectations with respect to dividends without doing--being tempted to do something problematic.

The third change that I took some comfort from is the fact that the handling of sales of voluntary stock will be done in a way that is, I believe, analogous to private placement today in the capital market. Those folks who are, fortunately, wealthy enough to be qualified investors in private placements, which means that they are wealthy enough to be able to totally lose their money.

CHAIRMAN KORSMO: To know better.

DIRECTOR MENDELOWITZ: To know better, supposedly. You cannot make a private placement investment without signing a declaration that you are a qualified investor which means that you have a certain level of assets and, you know, a certain level of sophistication in the marketplace and, therefore, you in effect don't need all of the protections that a non-qualified investor gets.

In the final revisions to the Chicago plan, the Chicago Board clearly stated that in the sale of voluntary stock, purchases will be required to affirmatively sign, either electronically or on paper, a--something analogous to this informed investor declaration, which the voluntary purchases of B stock will be acknowledged to be capitalizing long-line assets on the books of the Bank and notwithstanding the five-year put, that is the statutory right to redemption, these voluntary investors in B stock will explicitly acknowledge that they understand they may not be able to get their capital back even with the five-year advance notice. And that's an acknowledgement that is required at the time the voluntary stock is sold.

So with those types of changes that have been made to the final version of the Plan submitted for consideration, that go a long way toward addressing my hesitancy about this Plan, I am prepared to vote for it. But, in doing so, I do it acknowledging the validity and the seriousness of the concerns raised by Director Leichter. And the notice that, you know, we as regulators are going to have to be, I think, extra vigilant in our supervision of this Bank and its new Capital Plan because of all the innovation Mr. Chairman and the challenges in it.

CHAIRMAN KORSMO: Thank you, Dr. Mendelowitz, I particularly appreciate your comments in reference to Director Leichter's raising important issues of concern and I think he does do that appropriately, as he as done repeatedly through this process. I think those important issues do highlight some of the fundamental differences and perspectives that may exist on the Board but the raising of those issues is certainly appropriate.

Is there any other discussion? I promise this time not to jump so fast ahead, in case it's taking a moment for the hand to go up. Is there any other discussion--any other discussion? Hearing none, the Chair will call the question on two resolutions approving the Capital Plan of the Federal Home Loan Bank of Chicago and approving the exemption from the Financial Management Policy for the Capital Structure Plan of the Federal Home Loan Bank of Chicago. The Secretary will please call the roll.

MS. BAKER: On the motion before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: No.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Aye.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: The Chair votes aye. The Plan--the resolution is adopted; the Capital Structure Plan and the exemption to the Financial Management policy are approved. Thank you. And thank you to Chairman Timmerman and the representatives of the Bank of Chicago who were here to join us today.

We move now to discussion and consideration of the Proposed Capital Plan for the Federal Home Loan Bank of Cincinnati. With that, again, I will turn to our Managing Director Jim Bothwell.

MR. BOTHWELL: Thank you, Mr. Chairman. The proposed Capital Structure Plan of the Federal Home Loan Bank of Cincinnati involves three related resolutions.

The first of these resolutions would approve the Cincinnati Bank's Capital Structure Plan dated June 3, 2002. As always, this resolution requires the Finance Board approval of the Cincinnati internal market-risk model and it's risk assessment procedures and control before the Bank can implement the new Capital Structure.

The second resolution, Mr. Chairman, would waive the six-month notice redemption of the Bank's existing stock, thus allowing the Bank to convert more quickly to its new permanent stock structure.

And the third resolution, Mr. Chairman, again, specifies that the provisions of the FMP of the Cincinnati Bank would still be subject to upon implementation. At this time, again, Scott will present the Plan for your consideration.

MR. SMITH: Thank you, Jim. Mr. Chairman, members of the Board. Staff is requesting that the Board of Directors consider and approve three resolutions that are concerned with and constitute approval of the structure component of the Cincinnati Bank's Capital Plan.

The Finance Board staff finds that the most recent version of the Plan approved by the Bank's board of directors, June 6 of 2002, complies with Finance Board regulations.

The goals of the Cincinnati Plan, as described by the Bank include preserving the favorable tax treatment of stock dividends; reducing excess stock without triggering taxable events, by repurchasing stock or paying cash dividends in the future and amplifying the Bank's financial performance.

Since Class B stock plus retained earnings constitute permanent stock as defined by Gramm-Leach-Bliley, all the Bank stock would be eligible to meet to risk-based capital requirements. And in meeting the 4 percent leverage requirement for unweighted stock, the Bank will also meet the 5 percent weighted stock leverage requirement without question.

At this point in time and going forward, staff believes that the leverage requirement, rather than the risk-based capital requirement will be the binding constraint on the Bank's minimum capital.

If approved, the Bank intends to convert to the new capital structure in 12 months or less.

Implementation of the Plan will position the Bank with more permanent capital and will require that the Bank adopt a more state-of-the-art risk-management process.

The Bank's Capital Plan establishes a cooperative capital structure, whereby member's excess stock may be used by other members to provide capital for an increased activity.

Under the Capital Plan, three separate stock accounts are established: a membership stock account; an activity stock account; and an excess stock account.

The Plan requires that each member hold stock to meet the membership requirement. The membership stock requirement is set as a cumulative sliding scale based on member asset size. Initially ranging from .03 to .15 percent. The Plan allows the Bank to adjust the scale between .03 and .3 percent. Members must use their own stock to fulfill the membership requirement, that is, cooperative capital cannot be used to meet the membership requirement.

The activity stock account includes stock to support member mission activity including advances, firm advance commitments and AMA.

Through some combination of owned stock and cooperative capital, members must provide the maximum allocation percentage; initially set a 4 percent to support all listed activities. Of the 4 percent, 2 percent or the minimum allocation percentage must be member-owned. The minimum and maximum allocation percentages may be adjusted between 1 and 6 percent.

The member's excess stock account includes stock that is in excess of membership and activity stock. All member's excess stock, except under certain circumstances, will be pooled into what the Plan refers to the Federal Home Loan Bank excess stock.

A member that does not own sufficient stock to capitalize it's incremental mission with the Bank must, in effect, use available Federal Home Loan Bank excess stock to meet its stock investment requirements, rather than purchase the necessary stock for its own account.

Members are limited to borrowing no more than $200 million of Federal Home Loan Bank excess stock, although the Bank may change this limit.

Finance Board rules provide that the minimum stock purchase for investment requirements established by a capital plan must be set at a level, which provides sufficient capital for the Bank to comply with its minimum capital requirements.

As a part of this analysis, staff reviewed materials submitted by the Bank to support approval of the plan, including pro forma financial statements; the assumptions behind these statements; and management's estimates of the amount and type of stock that would be associated with the pro forma statements. Staff analysis of the Bank's projections indicate that the Bank will have sufficient capital at the moment of implementation.

Overall, staff has not identified any apparent structural flaws or other problems in the Plan in the initial proposed minimum investment requirements that would prevent the Bank from maintaining sufficient capital to comply with statutory and regulatory requirements and to continue to operate in a safe and sound manner.

We would be pleased to answer any questions.

CHAIRMAN KORSMO: Thank you Dr. Smith, are there any questions for the staff about the Cincinnati plan? Any questions for the staff? Seeing none, the Chair would entertain a motion to approve the three resolutions that are required for approval of the Capital Structure Plan of the Federal Home Loan Bank of Cincinnati. Director O'Neill. Director O'Neill, has approved, or excuse me, has moved approval of the three resolutions; the Capital Structure Plan resolution; Waiver of Withdrawal Notice Requirement that's required in the case of this particular Plan, and the Exemption of Financial Management Policy Restriction, including the three standards motions. Is there any discussion of the motion? Director Leichter?

DIRECTOR LEICHTER: Yes, I'm going to support this Plan, but I do want to state for the record that I have some concern, which I think was expressed by some other Board members at the hearing that we held at the absence of any specific proposal or plan, I should say, by the Cincinnati Bank to deal with the issue of excess stock going forward.

I think the Plan that they've come up with, I think is a reasonable one that I think is consonant with the principles and standards of the Home Loan Bank System, as I understand it. And I think, actually it's an intelligent way to use the excess stock which the Bank has which I somewhat see as akin to retained earnings.

My concern is that going forward that the Cincinnati Bank may find that it's going to increase its excess stock and at some point the Bank really needs to face up to the issue of how to deal with the excess stock.

Now, at the hearing that we held, representatives of the Bank certainly made a very strong and, I thought, well reasoned presentation and I want to thank them for that and also thank it's president, Chuck Thiemann, for the explanation that they've given us. But, it is, in some respects, it seems to be based on a somewhat optimistic viewpoint in the amount of business that the Bank is going to generate and it's activities and profits over the year. I hope it turns out to be that way, but if not, I really think at a very early stage it's the responsibility of the Bank to address the issue of excess stock and how it's going to reduce the excess stock.

And I just want to say that I know, I speak, I'm sure for all the Board members that we have great faith and trust in that Bank. I've had the pleasure of being at the Board meetings of the Bank and I know how very diligent and very conscientious the Board members are and I think it's also fair to say that when we raise these issues that it's in no respect an expression of lack of trust on our part in that Bank or it's leadership. I think that's our role and function as regulators that we can't just say, well, listen, this is a good Board of Directors and they'll do the right thing. By the way, I'm sure you people will do the right thing, but I think as regulators we have the obligation to state and sometimes impose action that would assure that the right thing would be done.

So, having just expressed that concern about your excess stock, I'm pleased to vote for this plan.

CHAIRMAN KORSMO: Thank you, Director Leichter, I appreciate your comments in this regard. I, too, have raised a similar issue in a number of forms about the continued level of excess stock and the plan to deal with it and how the situation continues to be compounded by the continuing payment of stock dividends in the face of the levels of excess stock.

I think Dr. Mendelowitz' comments earlier that pertained to the Chicago plan in terms of an increasing level of focus and supervision in this regard probably would be appropriate in the wake, assuming that it happens, the approval of this Plan. I like to make mention of that, as well, before I ask if there are any other issues or any other discussion on this particular motion? Is there any other discussion?

DIRECTOR WEICHER: Just say briefly--

CHAIRMAN KORSMO: Dr. Weicher?

MR. WEICHER: I'll just say, briefly, that I think that is a reasonable concern expressed by both the Chairman and Director Leichter. We should, as a Board, be monitoring this on an ongoing basis. I think that the discussion in Cleveland and the subsequent material that we've received back and forth gives me a sense of satisfaction that this Plan is a reasonable Plan going forward and I think that it should then be careful to ask the staff to monitor this and monitor this ourselves on a regular ongoing basis.

CHAIRMAN KORSMO: Thank you Dr. Weicher. Is there any other discussion? Dr. Mendelowitz. We're so polite here, we'll never get anything moving. Dr. Mendelowitz.

DR. MENDELOWITZ: Thank you, Mr. Chairman. As the Board knows, I have had some concerns with the Cincinnati Plan. I raised a number of issues with the Bank's directors at the field hearing in Cleveland and they're all in the public record, so there's no point in rehashing them.

Since our hearing in Cleveland, I've continued to struggle with the important issue of excess stock. At conversion to the new Capital Plan, the Cincinnati Bank will have about 40 percent excess stock. And because the Bank plans to continue to pay stock dividends, projected at an annual rate of about $200 million a year, there is a certain probability that the excess stock at the Bank will not be reduced and may even continue to grow.

In order to pay required dividends on excess stock, the Bank may have to continue to generate profits by putting risk on the balance sheet that's not related to the mission of the Federal Home Loan Bank System. I consider this unfortunate because mission is what should drive the size the balance sheet of a government-sponsored enterprise, with the government-provided float access to the capital markets. Rather than the need to earn profits to pay dividends on excess stock.

I have the greatest respect for President Thiemann, who if you've looked at his tenure at the Cincinnati Bank you know that he sailed that ship through shoals far more threatening than changing the Capital Plan. He's one of the people in the System who managed to navigate through the banking crisis of the '80s and come out whole, so I think that gives me great confidence. I also have the greatest respect and trust in Chairman Tipps and the rest of the board.

I believe that the Plan, as I've said, does give them the tools to address this problem. And they've committed that they will do the right thing and I've no reason to doubt the sincerity of that commitment or the technical competence to carry through with it.

Nevertheless, it is the responsibility of the regulator to prepare for the worse. Everytime I deal with a lawyer and I look at what they write up, my reaction is, jeeze, this is awfully insulting to the other party. And the lawyer says, well, it's my job to assume the worst and to protect you. And I've sort of adopted that as the appropriate attitude on the part of a regulator. We really should anticipate the worst and prepare for the worst.

Truthfully, I would prefer that the Bank have a more clearly laid out plan with the types of steps that they will take to address the problem presented by a large level of excess capital. And I actually would look forward to working with the Bank on this issue and I would hope that we could reach a resolution of this concern before this Capital Plan gets implemented.

At this point in time, I am willing to vote for the plan and support it because of the commitments that the Bank's board and the Bank's President have made and because, quite honestly, the problem of excess stock does not present the same level of safety and soundness concerns as the risk of a plan where the problem would be insufficient capital. I think I said at the hearing, I still find it--I'm totally amazed that, you know, we're sitting here criticizing a financial institution with too much capital. I mean, it's almost inconceivable, but we are in that situation.

So, as I said, I'm prepared to support the plan, but as a regulator, I have adopted President Reagan's well-known admonition to trust but verify. Thank you.

CHAIRMAN KORSMO: Thank you Dr. Mendelowitz. Are there any other comments? Director O'Neill.

DIRECTOR O'NEILL: I just wanted to read something from the Federal Home Loan Bank of Cincinnati's response to the questions that Director Mendelowitz wrote. Question seven said, "the Board believes it has a fiduciary responsibility to incorporate all relative laws and regulations in its decisions to most fully enhance the value of Federal Home Loan Bank membership." And I think that the Cincinnati Bank has done that and that's why I will vote for this Capital plan, but I think that that is well stated and is why we're here to approve these capital plans, but in my view the Board, in all cases, has that fiduciary responsibility and I think it has exercised it very responsibly.

CHAIRMAN KORSMO: Thank you Director O'Neill. Director O'Neill raises a point which some may not be aware of and in the wake of the Cleveland hearing, Director Mendelowitz did pose a number of questions to the Cincinnati Bank and to which they have responded in writing. If you would like, Dr. Mendelowitz, we can approve those in the record of this hearing at this meeting.

DIRECTOR MENDELOWITZ: I'd just assumed they would be added to the record of the Cleveland hearing.

CHAIRMAN KORSMO: I think it would be more appropriate to add them here--

DIRECTOR MENDELOWITZ: That's fine.

CHAIRMAN KORSMO: If there's no objection, we'll add--

DIRECTOR MENDELOWITZ: I do want to express my appreciation to the Cincinnati Bank because they had a very short time interval with which to respond to the questions before this hearing and they did an absolutely outstanding job of trying to be as complete and as formative as they could in the answers and in getting them back in time so that I actually could read them before this hearing and they played a role in helping me reach the position because, quite honestly, I've gone back and forth on how I would vote on this plan in the days running up to today's Board meeting.

CHAIRMAN KORSMO: There being no objection, we will include the questions and the responses in the record of this meeting. Is there any other discussion of the motion? Any other discussion? Seeing none, the question is on the three resolutions necessary to approve the Capital Structure Plan for the Federal Home Loan Bank in Cincinnati. The Secretary will please call the roll.

MS. BAKER: On the motion before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye. The motion is approved, the three resolutions are adopted, and the Capital Structure Plan for the Federal Home Loan Bank of Cincinnati is approved.

I know that one of our Directors has a doctor's appointment that would necessitate him being gone. Unless there's some objection on the part of the other members of the Board and with our sincerest apologies to the representatives who may be here from the Dallas Bank and the San Francisco Bank. If there isn't too strenuous an objection, I would take a recess at this point and reconvene the meeting at 2:00 o'clock. Is there a serious problem on anybody's part with that? I thank you. I appreciate everybody's indulgence in that regard.

We will take a brief recess until 2:00 p.m., at which point we will reconvene and consider the capital plan for the Federal Home Loan Banks of Dallas and San Francisco. Thank you

[Whereupon, at 12:19 p.m., the meeting recessed, to reconvene at 2:00 p.m. this same day.)

A F T E R N O O N   S E S S I O N

[2:01 P.M.]

CHAIRMAN KORSMO: I appreciate the patience demonstrated by the people from San Francisco and Dallas in allowing us to hold over until afternoon consideration of their Plans. And, particularly, I know Dean Schultz is here. Dean, thank you for your patience, we appreciate it.

Let's go right into consideration of the Capital Plan of the Federal Home Loan Bank of San Francisco. Mr. Bothwell.

MR. BOTHWELL: Thank you Mr. Chairman. The proposed Capital Structure Plan of the Federal Home Loan Bank of San Francisco dated May 30, 2002, which is on Tab 3 of your Board Books, involves two resolutions. The first of the resolutions would approve the plan, again, subject to the standard provision that the San Francisco Bank receive Finance Board approvals of both its market-risk model and its risk-assessment procedures and controls before its implementation.

The second resolution specifies the standard FMP restrictions that the Bank will still be subject to after implementation occurs. And, again, Scott Smith is here to present it for your consideration.

CHAIRMAN KORSMO: Thank you, sir. Mr. Smith.

MR. SMITH: Good afternoon, Mr. Chairman and members of the Board. Staff is requesting that the Board of Directors consider and approve two resolutions that are concerned with and constitute approval of the structure component of the capital component of the San Francisco Federal Home Loan Bank's Capital Plan.

Because the Bank's plan has a six-month opt-out period, the Finance Board does not have to provide a waiver of the withdrawal notice requirement.

The Finance Board staff finds that the most recent version of the Plan approved by the Bank's board of directors of May 31, 2002 complies with Finance Board regulations. In general, the San Francisco Bank contemplates business as usual for its implementation and, hence, has crafted a capital plan that closely approximates their current capital structure.

The San Francisco plan is a straightforward all Class B stock plan. Since Class B stock, plus retained earnings constitute permanent stock, as defined by Gramm-Leach-Bliley, all the Bank stock will be eligible to meet risk-based capital requirements. And, in meeting the 4 percent leverage capital requirement for unweighted stock, the Bank will also meet the 5 percent rated stock leverage without question.

At this point in time, in going forward staff agrees that the leverage requirement, rather than the risk-based capital requirement will be the binding constraint on the Bank's minimum capital. If approved, the Bank intends to convert to the new capital structure within three years.

Implementation of the Plan will position the Bank with more permanent capital and will require that the Bank adopt a more state-of-the-art risk-management process.

Under the Capital Plan, a member's minimum stock requirement will equal the greater of its membership stock requirement or its activity-based stock requirement, plus any capital stock assessment imposed by the board of directors of the Bank.

The membership stock requirement is initially set at 1 percent of membership assets multiplied by the membership asset factor for each asset type. Membership assets are assets that may qualify as collateral under the Bank Act and Finance Board regulations and may or may not be accepted by the Bank as collateral for any particular transaction. The membership asset factors are percentages that reflect the credit quality of the assets.

The Plan allows the Bank to adjust the membership stock requirement between .5 percent and 1.5 percent.

The activity-based stock requirement, as applied to advances, is initially set at 4.7 percent, with a range of 4.425 percent.

For AMA, the requirements are initially set at 5.4 percent with a range of 5.1 to 5.7 percent.

The Plan also authorizes the Bank's board of directors to impose a capital stock assessment, but only if the aggregate of the minimum stock requirements will result in or will be likely to result in an amount of capital stock that is not sufficient for the Bank to meet its minimum regulatory capital requirement and to operate within its capital target ratios. The assessment would be allocated based on each member's proportion of total required stock.

Finance Board rules provide that the minimum stock purchase or investment requirements established by the Capital Plan must be set at a level which provides sufficient capital for the Bank to comply with it's minimum capital requirements. As a presentation of this analysis, staff reviewed material submitted by the Bank to support approval of the Plan, including pro forma financial statements, the assumptions behind these statements and management's estimates of the amount and type of stock that would be associated with the pro forma statements.

Staff analysis of the Bank's projections indicate that the Bank will have sufficient capital at the moment of implementation.

Overall, staff has not identified any apparent structural flaws or other problems in the plan and the initial proposed minimum investment requirements that would prevent the Bank from maintaining sufficient capital to comply with statutory and regulatory requirements and to continue to operate in a safe and sound manner. We would be pleased to answer any questions.

CHAIRMAN KORSMO: Are there any questions for Scott or Tom? John.

DIRECTOR WEICHER: Thanks, Mr. Chairman. On the membership asset factors, as I read the range from 30 percent to 97 percent and there's nothing higher than 97 percent. Is that correct?

MR. SMITH: That's correct.

DIRECTOR WEICHER: So the initial requirement really is at a minimum, 1.03, a reciprocal .97, it would have to be more then 1 percent of assets because you'd have to have -- the membership asset factor is less than 1 percent?

MR. SMITH: I'm not sure I'm following this, it's after lunch.

DIRECTOR WEICHER: One percent--then maybe I don't understand it--1 percent of membership assets, multiplied by the membership asset factor for each asset type. If all your assets are U.S. agency and government securities, your membership assets factor is 97 percent.

MR. SMITH: Right.

DIRECTOR WEICHER: Does that mean the capital requirement is, in fact, 0.97 or does it mean it's 1.03?

MR. SMITH: .97.

DIRECTOR WEICHER: So it's lower than this. Thank you. May I speak to this?

CHAIRMAN KORSMO: Go ahead.

DIRECTOR WEICHER: Are you sure?

MR. SMITH: Yeah.

DIRECTOR WEICHER: --is 30 percent, which would all be in small business loans?

MR. SMITH: Yes.

DIRECTOR WEICHER: Far more than agricultural loans, which--

MR. SMITH: Regular membership requirements could be less, basically, if you have $100 of farm loans, they're going to count 30 percent and the membership factor, 30 percent will be the amount that the 1 percent is applied to.

DIRECTOR WEICHER: Is that correct?

MR. BOTHWELL: Director Weicher these membership factors are the assets that the Bank accepts for collateral--accepts for collateral and they roughly correspond with the haircuts of discounts that the Bank makes lending against such collateral. There could be other assets in those institutions that are not in the collateral, but the --

DIRECTOR WEICHER: All your loans are small-business loans, et cetera, you would have to have more capital --

MR. SMITH: No.

DIRECTOR WEICHER: You would have less?

MR. SMITH: Less.

DIRECTOR MENDELOWITZ: Basically, if I could interject.

CHAIRMAN KORSMO: Yes.

DIRECTOR MENDELOWITZ: If I understand it correctly, what they're doing is they're determining how much, in round numbers, collateral the Bank has and because--

DIRECTOR WEICHER: Potential--

DIRECTOR MENDELOWITZ: Potential collateral, so because the highest quality assets are almost worth 100-cents on the dollar and you can pledge almost 100-cents on the dollar backup in advance, there's a 1 percent charge against almost 100 percent, because the riskier loans--agricultural or small-business--basically take a haircut yet reduces the collateral value to about 30 percent of the face value of the loan, the amount of capital that you have to put up is 1 percent of that 30 percent.

MR. SMITH: So, in a simple example, if you have two Banks that both had $100 in assets and one had all U.S. agency and government securities and the other one had all small-business loans, the member with the small-business loans would have about a third of the membership requirement of the other one, because that member has about a third of the borrowing capacity.

DIRECTOR WEICHER: Thank you.

CHAIRMAN KORSMO: Now that we've helped the staff out on that, are there any other questions for the staff? Any other questions? Any other questions? If not I would entertain a motion to approve the two resolutions involved in approving the Capital Plan for the Federal Home Loan Bank of San Francisco.

DIRECTOR O'NEILL: So moved.

CHAIRMAN KORSMO: Director O'Neill has moved approval of the plan. Is there any discussion of the motion? Any discuss of the motion? Hearing no discussion of the motion, we call the question on the resolution to approve the--excuse me, on the motion to approve the two resolutions. The Secretary will please call the roll.

MS. BAKER: On the motion before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Aye.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Aye.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes. The motion is carried. And the two motions pertaining to the Capital Structure Plan for the Federal Home Loan Bank of San Francisco are approved. Thank you to President Schultz and others that were here representing the San Francisco Bank, again we appreciate your patience and your indulgence.

We'll take up the next item on our agenda, the consideration of the Federal Home Loan Bank of Dallas Capital Plan. Dr. Bothwell?

DR. BOTHWELL: Thank you, Mr. Chairman. The fourth and final Capital Structure Plan on the agenda today is that of the Federal Home Loan

Bank of Dallas Plan, which is dated May 30, 2002, Tab 4 of your books.

It involves three resolutions, the approval resolution; the resolution of waving the six-month withdraw-of-notice requirement; and the resolution which, again, states the continuing FMP restrictions. Once again, Scott.

MR. SMITH: Thank you, Jim. Staff is requesting that the Board of Directors consider and approve three resolutions that are concerned with and constitute approval of the structure component of the Dallas Federal Home Loan Bank's Capital Plan.

I hasten to add, that this is the shortest presentation of the four.

Finance Board staff finds that the most recent version of the Plan approved by the Bank's board of directors, May 30, 2002, complies with Finance Board regulations.

In general, the Dallas Bank contemplates business as usual for its implementation and has crafted a Capital Plan that closely approximates their current Capital structure.

The Dallas plan is straightforward. All Class B stock Plan. Since Class B stock, plus retained earnings constitute permanent stock defined by Gramm-Leach-Bliley, all Bank stock will be eligible to meet risk-based capital requirements, meeting the 4 percent leverage requirement for unweighted stock. The Bank will also meet the 5 percent weighted stock leverage requirement without question.

At this point in time, staff believes that the leverage requirement, rather than the risk-based capital requirement will be the binding constraint on the Bank's minimum capital.

If approved, the Bank intends to convert to the new capital structure in 25 months or less.

The implementation of the Plan will position the Bank with more permanent capital and will require that the Bank adopt a more state-of-the-art risk-management process.

Under the Plan, a member's total stock investment requirement will equal the sum of its membership requirement and its activity-based requirement.

The initial membership requirement is set at .25 percent of the members' total assets, but with a floor of $1,000 and a cap of $25 million.

The plan allows the Bank to adjust the percentage between .15 and .3 percent and to adjust the cap between $10 and $15 million.

The activity-based investment requirement applies to advances and AMA separately. For advances, the initial requirement is set at 4.25 percent, with a range of 3.5 to 5 percent.

For AMA, the initial requirement is set also at 4.25 percent, but with a range of 0 to 5 percent.

Finance Board Rules provide that the minimum stock purchase or investment requirements established by the capital plan must be set at a level which provides sufficient capital for the Bank to comply with its minimum capital requirements.

As a part of its analysis, staff reviewed material submitted by the Bank to support approval of the Plan, including pro forma financial statements, the assumptions behind these statements, and management's estimates of the amount and type of stock that would be associated with the pro forma statements.

Staff analysis of the Bank's projections indicate the Bank will have sufficient capital at the moment of implementation.

Overall, staff has not identified any apparent structural flaws or other problems in the Plan and the initial proposed minimum investment requirements that would prevent the Bank from maintaining sufficient capital to comply with statutory and regulatory requirements and to continue to operate in a safe and sound manner. We will be pleased to answer any questions.

CHAIRMAN KORSMO: Director O'Neill.

DIRECTOR O'NEILL: Because I have already asked this question of the staff, is there anybody from the Federal Home Loan Bank of Dallas out there? Anybody out there?

CHAIRMAN KORSMO: I don't think so, I didn't see anybody.

DIRECTOR O'NEILL: I was just wondering why they picked 25 months for the implementation period, it seems like a strange amount of time. But, that's fine.

CHAIRMAN KORSMO: No, answer.

MR. CASEY: Measured from today.

CHAIRMAN KORSMO: Pardon me? Oh, that would explain it, that would explain it based on. Thank you, Tom. Are there any other questions of the staff or Dr. Mendelowitz?

DIRECTOR WEICHER: This is not exactly a question, but I think the reason this was the shortest presentation is Scott was talking the fastest.

CHAIRMAN KORSMO: He did crank it up. Any other questions of the staff. Hearing none, is there a motion to approve the three resolutions in connection with approval of the Capital Structure Plan of the Federal Home Loan Bank in Dallas?

DIRECTOR WEICHER: So moved.

CHAIRMAN KORSMO: Dr. Weicher moves adoption of the resolutions. Is there any discussion? Yes.

DIRECTOR LEICHTER: Yeah, I just want to make a brief comment. I tend to support this Plan and somebody may say, well, that I'm being inconsistent because it does permit an AMA capital requirement of zero. Frankly, I wish that were not the case in the Plan, however, unlike the Boston Plan which I voted against, and the Chicago Plan which I voted against earlier, which had those provisions--the difference here is that, first of all, unlike the Boston Plan--what Boston did is that after the Chairman's directive of April 23 came out, it changed its plan to permit zero an AMA capital requirement, but it really didn't change its business plan. So it seemed to me that it was a problem there and also the Boston plan, or business plan, as I understand it, envisaged a significant amount of MPF activity of purchase of mortgages. Dallas had this provision in there, I think, initially. I don't think they changed to the zero capital requirement and it was consistent with their business plan throughout. And as I understand it, they really don't intend to hold mortgages on their books, but I think their business plan calls for them to send those mortgages to Chicago or to other Banks in the System. So I don't think it's going to create any problem. Nevertheless, as I've stated--probably at too great a length--I much prefer Capital Plans that do not have a zero requirement for AMA activity. But I will support this Plan.

CHAIRMAN KORSMO: Thank you, Director Leichter. Any other comments? Any other discussion? Dr. Mendelowitz?

DIRECTOR MENDELOWITZ: It seems the only Plan we didn't have any discussion on was San Francisco, I just wanted to make sure that the folks from San Francisco didn’t feel neglected.

CHAIRMAN KORSMO: They didn't feel neglected?

DR. MENDELOWITZ: We did study your plan, we gave a lot of consideration and please don't feel we gave you short shrift just because we didn't have a big debate over it.

CHAIRMAN KORSMO: Appreciate that comment. Any other discussion of the motion. Any other discussion? Seeing none, we'll call the question on the three resolutions required to implement the Capital Plan for the Federal Home Loan Bank of San Dallas. The Secretary will please call the roll.

MS. BAKER: On the motion before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Aye.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Aye.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes. The motion is carried and the resolutions are adopted implementing the Capital Structure--approving, excuse me, the Capital Structure Plan for the Federal Home Loan Bank of Dallas.

Is there any other business to come before the Board today? There's one item of business I should have taken care of at the earlier session when we had the larger crowd, but the fits and starts that opened our meeting caused me to overlook it.

I did want to take this opportunity--and, frankly, in the wake of some of the comments that were made in the earlier discussion, it's probably even more appropriate now. I did want to take a moment to introduce our new Deputy Director of our Office of Supervision, Christie Sciacca, for those who may not have met him. I think you heard today, in the course of the discussion, that there will be even more pressure on the function--on your function on the basis of the approval of a couple of the Plans that we discussed earlier. So, Christie, welcome to the Federal Housing Finance Board. We very much appreciate you joining the team.

MR. SCIACCA: Thank you,

CHAIRMAN KORSMO: Oh, good. All right, thank you, thank you. Any other comments? Arnie Intrater.

MR. INTRATER: A brief comment of a technical nature about the fact that we have something going into the Federal Register and request that the Board approve any need to make technical or conforming changes with respect to the proposed regs that you've approved.

CHAIRMAN KORSMO: If there's no objection? Hearing no objection, that's duly noted.

Any other comments, questions, criticisms. Oh, sorry, Director O'Neill.

DIRECTOR O'NEILL: Just one thing. Earlier, there was a resolution, I think or a plaque that was put together or that you presented to Bob Warwick for all of his service. Since this is the last board meeting that we will have before he leaves after years of service to the Federal Home Loan Bank of Atlanta, I just want to say on the record that we have been very fortunate to have people like Bob Warwick that have done such great service, and I figured that I would put that on the record of this Board meeting.

CHAIRMAN KORSMO: Thank you, Director O'Neill, duly noted along with a special thanks to Director Leichter for calling Mr. Warwick's retirement to our attention so we could appropriately recognize at the earlier session.

DIRECTOR LEICHTER: Thank you and I just want to say and I think I'm safe in saying that all the Directors join in your comments thanking Bob Warwick.

CHAIRMAN KORSMO: Any other questions or comments? Hearing none, thank you everybody, the meeting is adjourned.

[Whereupon, at 2:23 p.m., the meeting was adjourned.]

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