

TRANSCRIPT OF PROCEEDINGS

In the Matter of:)
)
OPEN MEETING)
)

Pages: 1 through 48

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FEDERAL HOUSING FINANCE BOARD

In the Matter of:)
)
OPEN MEETING)
)

Wednesday,
February 13, 2002

Federal Housing Finance Board
1777 F Street, N.W.
Washington, D.C.

The hearing in the above-entitled matter was
convened, pursuant to Notice, at 10:08 a.m.

BEFORE: JOHN T. KORSMO
Chairman, Federal Housing Finance Board

APPEARANCES:

JOHN WEICHER
ALLAN I. MENDELOWITZ, Board Director
FRANZ S. LEICHTER, Board Director
J. TIMOTHY O'NEILL, Board Director
JAMES L. BOTHWELL, Managing Director
ARNOLD INTRATER, Acting General Counsel
ELAINE L. BAKER, Secretary to the Board

STAFF:

NEIL R. CROWLEY
SCOTT L. SMITH
ERIC M. RAUDENBUSH
CHARLOTTE A. REID
JOSEPH A. MCKENZIE

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P R O C E E D I N G S

(10:08 a.m.)

CHAIRMAN KORSMO: Good morning, everybody. Let me call the meeting of the Federal Housing Finance Board to order. This, of course, is our first meeting of 2002 and the first of which I have the privilege and honor to wield the gavel as the Chairman of this organization.

Let me make an apology right out of the block. I have a very bad cold, and, so as a public health matter, I want everyone to fight the urge to kiss me on the lips today, particularly you, Allan, because I don't want to be contagious. So I'll stand up here, and please accept my apology if the nose blowing gets in the way of the proceedings.

This session will begin our policy of scheduling one meeting each month on a regular basis on the second Wednesday of the month. Now, I know already this has caused some consternation. Dr. Weicher, I know, has other responsibilities and is going to be in a hurry today. John, we are very happy you were able to join us. We thought for a moment we might have to rearrange the agenda a little bit to accommodate you, but we were very glad you were going to be here.

Frankly, I hope that establishing a predictable and reliable rotation of Finance Board meetings will help

1 each of us, the Bank System, and the interested public, to
2 more easily plan to participate in these sessions.

3 We do have a full agenda today, although I hope a
4 non-controversial one, including the last regulatory change
5 mandated by Gramm-Leach-Bliley, and an important resolution
6 establishing target dates for Board consideration of Federal
7 Home Loan Bank Capital Plans.

8 I should take just one minute to comment about my
9 role as Chair. Obviously, I am very pleased and honored, as
10 I mentioned, that President Bush has seen fit to allow me to
11 serve in this capacity. I have the unusual situation where
12 I am serving with two previous Chairs of the Board. So I
13 know I have to be mindful of making sure that I follow in
14 their tradition of quality meetings and the good work that
15 the Federal Housing Finance Board has done under their
16 leadership.

17 Let me just talk very quickly about procedure. I
18 could find nothing in either our regs or the statute about
19 how we proceed. Let's assume that we will use Roberts Rules
20 of Order as our guide, but it is not sacrosanct in any sense
21 in my thinking. For now, I want to continue the practice of
22 not requiring a second. I have noticed that, in previous
23 meetings under previous administrations, a motion is
24 sufficient to bring action to a vote on the floor. I have
25 discussed this at least with Allan, Franz and Tim, and I see

1 no reason why that practice should not be continued.

2 However, it has been suggested to me that on
3 substantive votes, not procedural votes or motions to recess
4 or close the meeting, but, on substantive votes, we will
5 institute a policy of calling the roll and Elaine Baker, our
6 Secretary, has prepared a simple format so that when we vote
7 on substantive issues, we will be keeping a recorded tally
8 of those votes.

9 Again, I particularly want to thank Dr. Weicher
10 for arranging to be here today. I know that your other
11 obligations require you to appear before the House Committee
12 on Financial Services and the Senate Banking Committee
13 today, and we are happy that you could be with us.

14 With that, unless there is any other comments or
15 questions, I would call on Managing Director Jim Bothwell,
16 to introduce our agenda items.

17 MR. BOTHWELL: Thank you, Mr. Chairman, and good
18 morning. And on behalf of the entire Finance Board staff, I
19 wish to extend a warm welcome to you in presiding at the
20 first meeting as Chairman of the Board of Directors of the
21 Federal Housing Finance Board.

22 CHAIRMAN KORSMO: Thanks, Jim.

23 MR. BOTHWELL: Good morning to you, Director
24 O'Neill, Director Leichter, Assistant Secretary Weicher and
25 Director Mendelowitz.

1 Mr. Chairman, there are five items on today's
2 agenda. The first of these items is: Final Rules of
3 Practice and Procedure for New Enforcement Authorities that
4 were granted to the Finance Board by the Gramm-Leach-Bliley
5 Act of 1999. As you mentioned in your opening remarks, Mr.
6 Chairman, if the Board adopts this rule today, it will mark
7 the final regulation needed to implement all of the
8 provisions affecting the Federal Home Loan Bank System that
9 are contained in Title VI of that landmark legislation.
10 Given the magnitude of the legislative changes contained in
11 Gramm-Leach-Bliley, I believe that this is an accomplishment
12 that we can all be proud of having made together.

13 Without further ado, I would like to ask Charlotte
14 Reid and Neil Crowley of the General Counsel's Office to
15 present the final rule for the Board's consideration,
16 Charlotte.

17 MS. REID: Good morning, Mr. Chairman, Members of
18 the Board. The staff recommends the Board adopt the Rules
19 of Practice and Procedure because the rule implements the
20 civil administrative enforcement powers granted to the
21 Finance Board with the enactment of the Gramm-Leach-Bliley
22 Act of 1999. In accordance with the Administrative
23 Procedure Act, the rule was initially issued as a proposed
24 rule for notice and comment. The final rule before you
25 addresses the comments the Finance Board received in the

1 seven comment letters that were submitted in response to the
2 proposed rule.

3 For the record, let me briefly summarize the
4 process, powers, and the careful consideration given to the
5 comments. Generally, the process involves issuing a notice
6 of charges, either a notice to cease and desist or a notice
7 of assessment of civil money penalties, to begin the
8 proceeding. The proceeding would be held before an
9 administrative law judge and hearing on the record that
10 meets all of the Administrative Procedure Act requirements
11 and due process standards.

12 The ALJ would submit a recommended decision to the
13 Board of Directors. The Board of Directors, based on the
14 record, would make its own findings and issue a final order.

15 A final order could be appealed by filing a petition with
16 the District of Columbia Court of Appeals, Federal Court of
17 Appeals, within 30 days of the issuance of the order.

18 This is a statutory provision. There is no leeway
19 in this statute. Our powers, the powers that were granted
20 to us under Gramm-Leach-Bliley for civil enforcement
21 proceedings, stem mainly from the powers that were granted
22 by Congress to OFHEO in 1992 in the Safety and Soundness Act
23 of 1992.

24 And those statutory provisions set out all of the
25 procedural requirements that this Agency must follow. And

1 for that reason and because our statute was amended, but the
2 process wasn't specified in the statute -- it was merely
3 referred to -- subpart B of the rule sets out each one of
4 the powers: the civil money penalty power and the cease and
5 desist power and subpoena power, and so forth, specifically
6 to incorporate that in our statutory and regulatory
7 framework. The staff believed that was an important
8 consideration to take into account in the rule.

9 And many of the comment letters that came in made
10 different references to certain statutory provisions, upon
11 which our rule was based. We have, in the process of
12 reviewing those comment letters, gone back and very closely
13 drafted the language in subpart B to very specifically stay
14 within the language of the OFHEO statute for each of those
15 provisions.

16 With the exception of the cease and desist
17 authority, which is specifically set forth in Section
18 2(b)(a)(5) of our Act now, the enforcement powers that we
19 have are virtually identical to the general enforcement
20 powers that OFHEO has with respect to Fannie Mae and Freddie
21 Mac. And while these powers are broad, as the rule shows,
22 there are ample due process safeguards built into
23 procedures.

24 If the Chairman will indulge me, I'll just very
25 briefly run through the primary powers conveyed. Cease and

1 desist power also includes the authority of the Finance
2 Board to require affirmative action to correct a condition
3 or a practice. That power, as stated in our Act, is kind of
4 a conglomerate of what's specifically set forth and what is
5 borrowed from the Federal Deposit Insurance Act in Section
6 8(b), which provides specific authority to the federal
7 financial institution regulatory agencies to require
8 affirmative action to correct practice and conduct, which
9 means that essentially our enforcement powers are virtually
10 the same now as the other banking regulatory agencies, which
11 is an important development for the Agency and a very useful
12 tool for the Board.

13 The cease and desist powers are set forth, as I
14 said, in our Act, and they include: the authority to issue a
15 notice of charges for unsafe and unsound practices in
16 conducting the business of a bank, for the violation of the
17 Act or law or order or rule or regulation, or the violation
18 of a written agreement or condition of approval contained in
19 a grant of approval by the Finance Board.

20 And the affirmative-action-to-correct provision,
21 which is borrowed, as I said, from the Federal Deposit
22 Insurance Act, includes the authority, so long as there is
23 issued a notice of charges under the cease and desist power,
24 includes the authority to require affirmative action to
25 correct the remedy or condition. And that authority

1 includes the authority of the Finance Board to require a
2 respondent to make restitution or reimbursement,
3 indemnification or guarantee against loss if the individual
4 was unjustly enriched in connection with the violation or
5 conduct or the violation or conduct involved reckless
6 disregard for the law, the regulations or prior Finance
7 Board order.

8 The Finance Board may also require the respondent
9 to restrict the growth of a bank, dispose of any loan or
10 asset, rescind any agreement or contract, employ qualified
11 officers and employees subject to the Finance Board's
12 approval, or to take such other action as the Board of
13 Directors determines to be appropriate.

14 Once the process goes forward for a cease and
15 desist order, the order would be issued, as I said, after a
16 hearing was held before an ALJ. Once the Board of Directors
17 issued the final order, the order would be effective 30 days
18 after the service on the respondent. In that time frame,
19 however, the respondent does have the ability, under the
20 Act, to file a petition with the Federal Circuit Board here
21 in the District of Columbia to obtain a review by the court.

22 Under the law, under OFHEO statute and now our
23 statute, only that court, only the United States Circuit
24 Court for the District of Columbia Circuit, may entertain a
25 petition to challenge the validity or appropriateness of a

1 final order of the Board of Directors under either the civil
2 money penalties provision or the cease and desist power.

3 In addition to the cease and desist power, the
4 Finance Board, that is to say the Board of Directors, has
5 the ability, under the act, within a notice of charges to
6 issue a temporary cease and desist order that would become
7 effective immediately upon service upon the respondent, if
8 the conduct or violation, as alleged in the notice of
9 charges, was likely to cause insolvency, a significant
10 depletion of total capital of the bank, or irreparable harm
11 to a bank.

12 That relief, that ability of the Finance Board to
13 take that affirmative action to prevent a loss in a bank is
14 a very important tool. It does involve also the power to
15 specify in the notice of charges that the books and records
16 are incomplete or inaccurate if that finding has been made;
17 and to require, in the temporary cease and desist order,
18 require the bank to take appropriate measures to correct
19 that condition.

20 CHAIRMAN KORSMO: That order requires action by
21 the Board as a Board. Right?

22 MS. REID: Yes, yes.

23 CHAIRMAN KORSMO: As opposed to staff action?

24 MS. REID: Yes. Absolutely. Yes. The temporary
25 cease and desist order would be effective upon service, as I

1 said. It would remain in effect and remain enforceable for
2 the duration of the proceeding on the cease and desist
3 charges. And it would remain enforceable until it was set
4 aside by the Board of Directors, or the Board of Directors
5 dismisses the charges.

6 CHAIRMAN KORSMO: But, again, that would require
7 formal action by the Board.

8 MS. REID: Yes. Absolutely. The procedures that
9 are set up by the statute, and now incorporated in our rule,
10 do permit the respondent to seek injunctive relief from a
11 temporary order within 10 days of service. However, if a
12 respondent did that, they are required under the rule and
13 under the statute to file a petition in the district court,
14 the federal district court here in the District of Columbia.
15 If they did so, that court does not have jurisdiction.
16 Pursuant to the statute, it does not have jurisdiction to
17 determine the validity or appropriateness of the order. The
18 only thing that court can do is issue an injunction or deny
19 the injunction.

20 And I should point out that Gramm-Leach-Bliley
21 also amended the Act to give the Finance Board the authority
22 to act through its own attorneys in these matters, which is
23 also a significant improvement over the prior regulatory
24 structure.

25 The civil money penalties provision grounds are

1 similar to the cease and desist order powers, but they also
2 include the ability to file a notice of assessment where the
3 Finance Board finds that the bank has engaged in conduct
4 that has caused or is likely to cause a loss to the bank.
5 And again, the hearing process would go forward on the
6 notice of charges. Again, the Board of Directors would be
7 the final determiner of the order that would be issued.

8 There are three tiers for the penalties that are
9 tied to the culpability of the conduct, the egregiousness of
10 the conduct. So the penalties rise with the degree of
11 culpability and the degree of harm to the bank that's
12 alleged. The first tier is \$5,000, and that can be assessed
13 against a bank for violations, but it cannot be assessed
14 against a bank for conduct that causes or is likely to cause
15 a loss. And those Tier 1 penalties also cannot be assessed
16 against an individual, and that is purely by statute. We
17 are following exactly what the OFHEO statute says in that
18 regard.

19 As I said, there are three tiers. The second tier is
20 \$10,000 with respect to an individual or \$25,000 with
21 respect to a bank for a pattern of misconduct or
22 recklessness or material loss.

23 And Tier 3 involves significant penalties:
24 \$100,000 per individual, \$1 million per day per bank for
25 knowing conduct or conduct that caused or is likely to cause

1 a substantial loss.

2 In the rule we list certain factors that the Board
3 would consider in determining the amount of the penalty.

4 The Board has the ability to decide what the penalty will be
5 within these parameters. The Board is not required by the
6 statute to stick specifically to those numbers; it just
7 can't go over that number on a daily penalty basis.

8 The factors, some of which are listed in the rule
9 itself, include prior violations, whether it promotes the
10 safety and soundness of the Bank System, and the deterrence
11 effect that such an order would have. In this case, and
12 this is the only instance under these three powers, in this
13 case there is no injunctive relief available. A respondent,
14 receiving an order for the assessment of a civil money
15 penalty, cannot seek an injunction from the district court
16 to try and block the effectiveness of that order.

17 In addition, we should note that the Board has the
18 ability under the statute and under the rule to compromise
19 or settle or remit any penalty. The procedures that are in
20 place, and the statutory authority that has been enacted for
21 the Finance Board, gives the Board of Directors sufficient
22 discretion and sufficient tools to be able to conduct the
23 policy that the Board determines is appropriate.

24 We did make some changes from the proposed rule.
25 As I said, we had seven comment letters, and we did make

1 changes in response to those comments. For one thing, as I
2 said, we tried to tie the language of the rule specifically
3 to the language of the statute. In that regard, all
4 references to the Office of Finance have been stripped from
5 the rule.

6 Also, in agreement with a comment that was made,
7 we removed breach of fiduciary duty and unsafe and unsound
8 practices from the fourth ground for the civil money
9 penalty, which states that a civil money penalty may be
10 imposed where the bank engages in conduct that causes losses
11 or is likely to cause a loss. Again, that is solely to
12 conform our rule to the statute.

13 We made one other significant change to the rule.

14 Section 908.7 of the proposed rule contained provisions for
15 removal of an officer or director, employee or agent of a
16 bank or the Office of Finance. That provision was based on
17 a different part of our statute that was not enacted by
18 Gramm-Leach-Bliley. And, upon reconsideration, it's our
19 recommendation to the Board that that rule be separately
20 considered at a later date, based on the comments that we
21 received and based on the fact that it underlies a different
22 statutory authority and different procedural and due process
23 considerations that should be taken into account.

24 CHAIRMAN KORSMO: And surprise, surprise. The
25 presidents and the boards of directors objected to us --

1 MS. REID: Yes. They did.

2 CHAIRMAN KORSMO: -- objected to us trying to
3 establish that authority without strict statutory
4 requirements. Right?

5 MS. REID: We did receive a number of comments
6 that were opposed to the provisions, but they all centered
7 on the aspect of due process. Because, under that provision
8 in the statute, which is 2(b)(a)(2), the Finance Board is
9 not specifically required by the statute to hold a hearing
10 on the record, which is a term of art in administrative law;
11 and for that reason, the process that was established within
12 this rule and the proposed rule was different from the
13 process for civil money penalties and cease and desist
14 orders. So there was kind of an imbalance there, and it's
15 just logical to take it out and deal with it separately.

16 There were comments that we received that we
17 disagreed with and that we did not make rule changes to
18 match those requests. I think some of the commentators may
19 have misread the statutory background because many of them
20 argued that we didn't have the authority, under the statute,
21 to include in our rule the provision that is actually stated
22 in the OFHEO statute that provides that the District of
23 Columbia circuit court has exclusive jurisdiction to review
24 civil money penalty orders. We did not make that change
25 because we are sticking to the statute.

1 We also declined to define the concept of loss.
2 Several commentators argued that it was an amorphous
3 concept, and it should be defined specifically within our
4 rules. That just flies in the face of the practice in the
5 financial regulatory community that it has to be decided on
6 a case-by-case basis. All of the facts involved in any kind
7 of proceeding of this nature have to be carefully considered
8 by the Board. The statute expressly gives the discretion to
9 the Board to make those considerations on a case-by-case
10 basis. Therefore, we did not include a definition of
11 "loss."

12 Similarly, we did not include a definition of
13 "unsafe and unsound" for many of the same reasons. There is
14 a body of law that helps to frame what unsafe and unsound
15 means in the context of an enforcement action. And the
16 courts have consistently held that it has to be a flexible
17 concept to give the agency the ability to respond to
18 changing business practices and financial conditions. For
19 that reason, and based on that case law, we have not
20 included a definition of "unsafe and unsound" in the act.

21 One small thing that the rule does is make
22 representatives, who appear before the Finance Board in
23 proceedings that are conducted pursuant to Part 907, which
24 is our internal review procedure, subject to the
25 disciplinary requirements and possible sanctions under

1 subpart F of the rules of practice and procedure.

2 As I said, the Board has significant discretion
3 under this rule within the confines of the statutory
4 authority. The Board can go back and stay, modify, or set
5 aside any cease and desist order. It can review any order
6 to assess a civil money penalty or any interlocutory ruling
7 in a hearing on either of those matters; and it may settle,
8 modify, or remit any civil money penalty that may have been
9 assessed under this section.

10 CHAIRMAN KORSMO: The end?

11 MS. REID: The end.

12 CHAIRMAN KORSMO: All right. Thank you, Ms. Reid.

13 Do any of the Directors have any questions? Why don't we
14 go around the table once? Dr. Mendelowitz, any questions?
15 John?

16 MR. O'NEILL: I just want to commend the staff. I
17 think that you did a good job of responding to the different
18 comments and taking those that you thought had merit and
19 giving adequate reasons why those that didn't have merit
20 didn't have merit. So I compliment you on your paying
21 attention to the comments that were made.

22 MS. REID: Thank you, sir.

23 CHAIRMAN KORSMO: I may have missed it, so please
24 help me, Charlotte. How are the orders served? Are they
25 served by a marshal or by mail? If we adopt an order, how

1 is that served?

2 MS. REID: We can do it by personal service. We
3 can do it by registered mail.

4 CHAIRMAN KORSMO: Is it specified in there
5 anywhere?

6 MS. REID: Yes, sir.

7 CHAIRMAN KORSMO: Oh, okay. I'm sorry. I missed
8 that. I'm sorry.

9 MS. REID: It's specified in 908.7.

10 CHAIRMAN KORSMO: I am sorry. I looked through
11 it. I missed that. Are there any other questions?

12 MR. LEICHTER: I just want to express my thanks
13 for the presentation and the work that you and this staff
14 did on this.

15 MS. REID: Thank you, sir.

16 CHAIRMAN KORSMO: If there are no other questions,
17 the Chair would entertain a motion to approve the final rule
18 as proposed by the staff.

19 MR. O'NEILL: I will so move.

20 CHAIRMAN KORSMO: We have a motion. Is there any
21 discussion of the motion?

22 (No response.)

23 CHAIRMAN KORSMO: Hearing none, the question is
24 adoption of the Final Rule on Practice and Procedures for
25 Enforcement Powers. Will the Secretary please call the

1 roll?

2 MS. BAKER: On the matter before the Board,
3 Chairman, how do you vote?

4 CHAIRMAN KORSMO: Aye.

5 MS. BAKER: Director Leichter?

6 MR. LEICHTER: Aye.

7 MS. BAKER: Director Mendelowitz?

8 MR. MENDELOWITZ: Aye.

9 MS. BAKER: Director O'Neill?

10 MR. O'NEILL: Aye.

11 MS. BAKER: Director Weicher?

12 MR. WEICHER: Aye.

13 CHAIRMAN KORSMO: As I hear it, that is five ayes
14 and no nays. The Final Rule on Practice and Procedures for
15 New Enforcement Authority is adopted; and with that we have
16 completed the regulatory changes mandated by Gramm-Leach-
17 Bliley. I think the staff of this Agency and the previous
18 leadership of this Agency deserves our thanks for a job well
19 done. I hope the legislative leadership appreciates the
20 effective job that this Agency has done in adopting the
21 rules that were necessary to carry out the mandates of the
22 statute.

23 With that, we will move on to the second item on
24 the agenda: Proposed Rule Amending the Definition of "Non-
25 Mortgage Assets" for Purposes of the Leverage Limit

1 Requirement of Section 966.3(a) of the Regulations. Dr.
2 Bothwell, I am guessing because I am seeing these two
3 gentlemen approaching the podium that they are the ones up
4 on this. Is that correct?

5 MR. BOTHWELL: Yes, sir. I just would like to add
6 that the proposed rule would correct what has become an
7 anomaly in the current definition of "non-mortgage assets."
8 Scott Smith, the acting director, accompanied by Eric
9 Raudenbush from the General Counsel's Office, will present
10 the proposed rule for the Board's consideration.

11 MR. SMITH: Thank you, Jim. Good morning, Mr.
12 Chairman and Members of the Board. The staff is requesting
13 that the Board of Directors consider and approve the
14 proposed rule amending the definition of "non-mortgage
15 assets" for purposes of the leverage limit requirement of
16 Section 966.3(a) of the regulations.

17 Specifically, this amendment would adjust the list
18 of non-mortgage assets for purposes of determining the
19 eligibility of a bank to increase its total-assets-to-total
20 paid-in-capital stock ratio, or leverage ratio, from 21-to-1
21 to 25-to-1. The adjustment would allow that all rather than
22 some United States government-insured or guaranteed whole,
23 single-family, residential mortgages be counted as mortgage
24 assets in a manner consistent with the inclusion of all
25 mortgage-backed securities as mortgage assets.

1 This amendment would simplify a provision
2 governing the leverage ratio that, in effect, allows the
3 banks to achieve today, and albeit with some restriction,
4 the same 25-to-1 leverage ratio that is permitted under the
5 Gramm-Leach-Bliley Act and which will be effective without
6 restriction for each bank upon the implementation of their
7 capital plan.

8 We will be happy to answer any questions.

9 CHAIRMAN KORSMO: Do any of the Directors have any
10 questions? Dr. Weicher, I will start with you. No?

11 MR. WEICHER: How many institutions are affected
12 by this, two?

13 MR. SMITH: I think two is correct, at the moment.

14 MR. O'NEILL: Following up on that, why are those
15 two institutions affected while the other 10 are not?

16 MR. SMITH: Well, it's just a function of their
17 balance sheets. Whether they have in their districts more
18 or less ability to do AMA programs or advances.

19 MR. BOTHWELL: They have rather large, relative to
20 their balance sheet, investment portfolios. They have
21 enough mortgage assets. Two banks, I believe, the Bank of
22 Seattle and --

23 CHAIRMAN KORSMO: Seattle and Cincinnati.

24 MR. BOTHWELL: Cincinnati has a relatively large
25 fed funds portfolio; and Seattle has a large agency.

1 CHAIRMAN KORSMO: Any other questions? Hearing
2 none, again, the Board will entertain a motion to approve
3 the proposed rule. Oh, come on, somebody.

4 MR. LEICHTER: I'll so move.

5 CHAIRMAN KORSMO: Thank you, Mr. Leichter. Is
6 there any discussion of the motion? Hearing none, again,
7 the Secretary will call the roll.

8 MS. BAKER: On the matter before the Board, Mr.
9 Chairman, how do you vote?

10 CHAIRMAN KORSMO: Aye.

11 MS. BAKER: Director Leichter?

12 MR. LEICHTER: Yes.

13 MS. BAKER: Director Mendelowitz?

14 MR. MENDELOWITZ: Yes.

15 MS. BAKER: Director O'Neill?

16 MR. O'NEILL: Yes.

17 MS. BAKER: Director Weicher?

18 MR. WEICHER: Aye.

19 CHAIRMAN KORSMO: Once again, the vote is 5-0.
20 The proposed rule is adopted.

21 Item number three on the agenda are: Technical
22 Corrections Amendment of all of our Finance Board
23 Regulations. Again, Dr. Bothwell, who is addressing this?
24 I am guessing it must be Eric.

25 MR. BOTHWELL: Yes, sir. It's Eric Raudenbush

1 from the Office of General Counsel. And I would just like
2 to mention that this is the first time this is coming before
3 the Board as a final rule because it's a technical rule.

4 CHAIRMAN KORSMO: And did we get a new version of
5 this morning?

6 MR. BOTHWELL: I believe you got the full version.

7 CHAIRMAN KORSMO: The full version? Okay. Thank
8 you.

9 MR. INTRATER: Pardon me, Mr. Chairman. Let me
10 interject that I have a private agreement with Mr.
11 Raudenbush that he is not going to go into extensive
12 exigencies of correction and oversight that's adjusted with
13 regard to this package, but is perfectly willing to brief
14 anyone privately on where these changes appear. I apologize
15 for interrupting you.

16 MR. RAUDENBUSH: Most of this has to do with
17 background, not the actual changes.

18 Good morning, Mr. Chairman and Board of Directors.

19 When the Federal Housing Finance Board was established in
20 1989, the agency inherited the regulations of the old
21 Federal Home Loan Bank Board relating to the Federal Home
22 Loan Banks, and the regulations were assigned to Chapter 9
23 of Title XII of the Code of Federal Regulations.

24 Over the next decade, new regulations were added
25 in piecemeal fashion until, by the end of the 1990s, Chapter

1 9 had become a mishmash of modern regulations and relics
2 remaining from as far back as the Truman Administration
3 addressing such topics as bank transactions in gold coins;
4 and, in some cases, referring to policies, agencies, and
5 offices that have not existed for decades.

6 CHAIRMAN KORSMO: Careful. I am a relic dating
7 back to the Truman Administration.

8 MR. RAUDENBUSH: The passage of the Gramm-Leach-
9 Bliley Act in November 1999 required the extensive amendment
10 of many of the Finance Board's existing regulations and the
11 passage of many new regulatory initiatives. In anticipation
12 of these required changes and in recognition of the
13 disorganized state of Chapter 9 of the C.F.R., the Finance
14 Board published, in February of 2000, a final rule that
15 reorganized and renumbered its entire set of regulations.

16 The rule deleted obsolete provisions, standardized
17 terminology, and consolidated definitions of frequently used
18 terms into a new Part 900 that appears at the beginning of
19 our regulations, updated the regulatory format to better
20 conform to the conventions of the Code of Regulations, and
21 structured the order of the regulations to reflect the
22 current duties of the Finance Board and the operations of
23 the banks.

24 As mentioned, the February 2000 rule was prepared
25 in anticipation of the major rule-makings occasioned by the

1 GLB Act; and, as of today, we have completed those. Given
2 that these have now been added, additional minor adjustments
3 are needed to the regulations to ensure that they operate as
4 a harmonious whole, structurally speaking.

5 The rule that is before you for consideration
6 today would complete the job begun by the February 2000
7 rule. The largest portion of the rule before you involves
8 the further consolidation of common terms that are used
9 frequently throughout the regulations into Part 900. This
10 part defines such terms as: "Finance Board," "advance,"
11 "AHP," "HUD," and similar types of terms so that they do not
12 need to be defined over and over again in each substantive
13 part of the regulations as they formerly had been.

14 Definitions of terms that set forth a substantive
15 standard, for example, the term "investment grade," are left
16 in each individual part to which they relate, no matter how
17 many times they must be repeated.

18 The remainder of the changes that this rule would
19 implement involve corrections of mistaken cross-references
20 and other mistakes remaining from or generated by the
21 February 2000 rule. The standardization of citations of
22 statutes and regulations, some minor renumbering of
23 regulations, and the correction of various other
24 typographical errors that were discovered during a thorough
25 scrub of the regulations. I stress that all of the changes

1 set forth in the rule are meant to be nonsubstantive and
2 that no change in the meaning of any regulation is intended.

3 For this reason, the staff is recommending that
4 the rule be adopted as a final rule, to be effective
5 immediately. If so adopted, the changes would not appear in
6 the bound version of the Code of Federal Regulations until
7 the spring of 2003, but would appear in the electronic
8 version available on the Internet immediately or as quickly
9 as they can absorb the 228 amendments in the rule.

10 With passage of this rule, the Finance Board's
11 regulations, while remaining necessarily complex, will be as
12 clear, concise, and well organized as possible. And,
13 hopefully, it will be another several decades before such a
14 massive reorganization is again required.

15 Thank you, and I would be happy to answer any
16 questions.

17 CHAIRMAN KORSMO: I am glad that the regulations
18 will be as orderly and precise as the presentation. Any
19 questions? Yes, sir. Mr. Leichter?

20 MR. LEICHTER: I just want to put on the record
21 something I've been assured in briefings that I've had that
22 there are absolutely no substantive changes in these pages
23 and pages and pages of regulations.

24 MR. RAUDENBUSH: I assure you, if there was
25 anything that was even arguably a substantive change, it was

1 left to be dealt with later. If there is any confusion in
2 the rule where something appears to be a substantive change
3 because, for example, a definition was moved somewhere else,
4 that will be explained in the preamble about how it is not a
5 substantive change. So, yes, you are correct.

6 CHAIRMAN KORSMO: Good comment. Any others?

7 Allan.

8 MR. MENDELOWITZ: Yes. Eric, I just wanted to
9 recognize for the record that even though you've assured us
10 that all of your work was nonsubstantive, I still believe
11 it's highly important. If there ever was a thankless task,
12 this was it. We are in your debt for doing such an
13 outstanding job.

14 MR. RAUDENBUSH: Thank you.

15 CHAIRMAN KORSMO: Any other questions or comments?

16 Hearing none, could I have a motion on approval of the
17 technical corrections?

18 MR. LEICHTER: So moved.

19 CHAIRMAN KORSMO: We have a motion. Any
20 discussion of the motion?

21 (No response.)

22 CHAIRMAN KORSMO: Hearing none, the Secretary will
23 please call the roll.

24 MS. BAKER: On the matter before the Board,
25 Chairman Korsmo, how do you vote?

1 CHAIRMAN KORSMO: Aye.

2 MS. BAKER: Director Leichter?

3 MR. LEICHTER: Aye.

4 MS. BAKER: Director Mendelowitz?

5 MR. MENDELOWITZ: Aye.

6 MS. BAKER: Director O'Neill?

7 MR. O'NEILL: Yes.

8 MS. BAKER: Director Weicher?

9 MR. WEICHER: Aye.

10 CHAIRMAN KORSMO: Unless I am mistaken, the vote
11 was 5-0. The technical amendments are adopted. Thank you.

12 Dr. Bothwell, item number four on the agenda? Oh,
13 excuse me. Tim?

14 MR. O'NEILL: One thing. This might be Eric
15 Raudenbush's last Board meeting. And if that's the case, I
16 think that we all ought to recognize and maybe give him a
17 little applause for all that he has done for both the
18 Finance Board and the Board of Directors.

19 CHAIRMAN KORSMO: Mr. O'Neill, that is an
20 excellent idea. Thank you for bringing that up. Eric, we
21 appreciate your service here, particularly this last ordeal,
22 and with that maybe he deserves a round of applause. Thank
23 you, Eric.

24 CHAIRMAN KORSMO: Mr. Intrater?

25 MR. INTRATER: Let the record also reflect that

1 there was no *quid pro quo* about his exit date and completion
2 of the technical amendments. He has been free to go at any
3 time.

4 CHAIRMAN KORSMO: He is taking his name tag with
5 him. I consider that definitive. Now, Dr. Bothwell.
6 Excuse me.

7 MR. BOTHWELL: Mr. Chairman, the fourth item is
8 the Proposed Rule on the Minimum Number of Required Office
9 of Finance Board Meetings. The adoption of this proposed
10 rule would make the required minimum number of Office of
11 Finance board meetings consistent with that that our
12 regulations require for the boards of directors of the
13 Federal Home Loan Banks. I ask Joe McKenzie of the Office
14 of Policy to present.

15 MR. MCKENZIE: Good morning, Mr. Chairman and
16 Members of the Board. The staff is presenting for your
17 consideration today a proposed rule that would reduce the
18 minimum number of board meetings for the board of directors
19 of the Office of Finance to six in-person meetings from nine
20 meetings. The Office of Finance has requested this
21 regulatory amendment.

22 In 2000, when the Finance Board most recently
23 adopted rules governing the operations of the Office of
24 Finance, it set the minimum number of board meetings for the
25 board of directors of the Office of Finance at nine. This

1 represented the then-existing requirement that set the
2 minimum number of board meetings for the Federal Home Loan
3 Banks' boards of directors at nine meetings annually. Since
4 that time, the Finance Board has adopted regulatory
5 amendments that reduce the minimum number of board meetings
6 for the boards of directors of the Federal Home Loan Banks
7 to six.

8 Irrespective of the rule governing the Federal
9 Home Loan Banks, staff believes that the board of directors
10 of the Office of Finance can fulfill their oversight
11 responsibilities at a minimum of six meetings annually.
12 There are two reasons for this assessment. First, unlike
13 the Federal Home Loan Banks, the Office of Finance does not
14 invest in or fund assets for its own account.

15 Rather, the Office of Finance raises funds for and
16 only at the specific request of a Federal Home Loan Bank,
17 which is precommitted to take down the proceeds of the debt
18 issuance. Since the Office of Finance has no portfolio, it
19 faces no credit risk and no interest-rate risk. Moreover,
20 the Office of Finance does not serve as a counterparty to
21 any derivatives contract.

22 Second, both the activities and staff of the
23 Office of Finance do not require frequent board of director
24 oversight. While the Office of Finance raises significant
25 amounts of funds each day in the capital markets, most of

1 its activities are routine and are subject to well-
2 established policies and procedures. In addition, the staff
3 of the Office of Finance only number slightly above 50, and
4 many Office of Finance officers and employees have long
5 tenure.

6 By regulation, the board of directors of the
7 Office of Finance also serves as its audit committee. This
8 audit committee usually meets by telephone just before the
9 publication of the annual and quarterly combined financial
10 statements, unless the board has already scheduled an in-
11 person meeting around those dates. The audit committee, by
12 necessity, has to meet around March 25th, May 10th, August
13 10th, and November 10th.

14 Telephonic meetings of the board of directors of
15 the Office of Finance, acting as its audit committee, do not
16 qualify towards the minimum number of six in-person meetings
17 during the year. However, these audit committee meetings
18 can allow the board of directors of the Office of Finance to
19 consider any other matters that would arise between their
20 regularly scheduled meetings. The proposed rule has a 30-
21 day comment period. I'll answer any questions that you may
22 have.

23 CHAIRMAN KORSMO: Thank you, Dr. McKenzie. Any
24 questions?

25 (No response.)

1 CHAIRMAN KORSMO: I hear no questions, Joe.
2 Obviously, a very thorough job of convincing us. In that
3 case, I would entertain a motion to approve the proposed
4 rule.

5 MR. MENDELOWITZ: I think its my turn.

6 CHAIRMAN KORSMO: I think it is Dr. Mendelowitz.

7 MR. MENDELOWITZ: I so move.

8 CHAIRMAN KORSMO: Thank you. Is there any
9 discussion of the motion?

10 (No response.)

11 CHAIRMAN KORSMO: Hearing none, the question is on
12 the proposed rule regarding a minimum number of scheduled
13 Office of Finance board meetings. The Secretary will please
14 call the roll.

15 MS. BAKER: On the matter before the Board,
16 Chairman Korsmo, how do you vote?

17 CHAIRMAN KORSMO: Aye.

18 MS. BAKER: Director Leichter?

19 MR. LEICHTER: Yes.

20 MS. BAKER: Director Mendelowitz?

21 MR. MENDELOWITZ: Aye.

22 MS. BAKER: Director O'Neill?

23 MR. O'NEILL: Aye.

24 MS. BAKER: Director Weicher?

25 MR. WEICHER: Aye.

1 CHAIRMAN KORSMO: If I am not mistaken, the vote
2 is 5-0. The proposed rule is adopted, and I assume the
3 comment period will begin --

4 MR. MCKENZIE: Upon publication in the Federal
5 Register.

6 CHAIRMAN KORSMO: Thank you, Dr. McKenzie.

7 The last item on our agenda is: Resolution
8 establishing our anticipated schedule for considering
9 Federal Home Loan Bank Capital Plans in open meetings in
10 March, May, June, and July. This resolution represents an
11 implied contract with each Bank in which the Finance Board
12 promises to devote the necessary focus and resources to
13 review the Plans, if each Bank and its directors will act
14 with dispatch to cooperate with our review and to adopt any
15 necessary changes. Dr. Bothwell?

16 MR. BOTHWELL: I will call on Scott Smith.

17 CHAIRMAN KORSMO: Thank you. Scott?

18 MR. SMITH: Mr. Chairman and Members of the Board,
19 staff is presenting for your consideration a resolution that
20 sets forth the schedule of when the capital plans of the 12
21 Federal Home Loan Banks can be ready to submit to the Board
22 of Directors for consideration in an open Board meeting.
23 Embedded in this schedule are expectations for the timely
24 review and communication of comments by the Finance Board
25 staff. Similarly, the schedule assumes timely revisions by

1 Bank staff and the timely approval of any such revisions by
2 the boards of directors of the Banks.

3 Specifically, according to the schedule, the
4 Seattle Bank's Plan will be presented for Board
5 consideration at the March 13th meeting. The Boston,
6 Pittsburgh, and Atlanta Plans will be presented at the May
7 8th meeting. The Cincinnati, Dallas, San Francisco, and
8 Chicago Plans will be presented at the June 12th meeting,
9 and the Topeka, Des Moines, New York, and Indianapolis Plans
10 will be presented at the July 10th meeting. I'd be happy to
11 address any questions.

12 CHAIRMAN KORSMO: Any questions for Mr. Smith?
13 Yes, Mr. O'Neill.

14 MR. O'NEILL: I just want to commend, first, you,
15 Mr. Chairman, and the staff. Obviously, this is an
16 ambitious timeframe, but, as I have said to you, Mr.
17 Chairman, and probably almost everybody in this room, I
18 think that the Finance Board approving the 12 Capital Plans
19 is the most important thing that we have before us. So I
20 think that this is truly momentous that we have such a
21 schedule, and we're letting everybody know it as of this
22 meeting. So that by soon after the middle of the year, we
23 will have approved all 12 Capital Plans, and then we can go
24 about other business.

25 But I think that this is truly a remarkable

1 achievement just to get the 12 Banks on a schedule where
2 everybody knows exactly what's going to happen over the next
3 six months. So my hat is off to you, Mr. Chairman, and the
4 staff for getting this put together.

5 CHAIRMAN KORSMO: Thank you. Let us call it a
6 remarkable challenge, at this point. It remains a
7 challenge, I think, to this point. Any other comments? Dr.
8 Mendelowitz?

9 MR. MENDELOWITZ: Yes. I have a question that
10 deals with risk issues. You will have to bear with me
11 because I want to draw an analogy to deposit insurance to
12 make sure I'm able to communicate the nature of my question.
13 We all know what deposit insurance is. It has a very
14 important up side, and that up side is that every American
15 family can put money into a federally-insured, depository
16 institution with the assurance that they will be able to
17 retrieve their money, irrespective of what happens to that
18 institution.

19 But there is a down side to deposit insurance.
20 And that down side is there is no market discipline on the
21 quality of the management of the depository institution, nor
22 on the level of risk that the depository institution will
23 put on their balance sheet. Basically, the cost of money,
24 defined by interest rates on deposits, is the same whether
25 you have a conservatively-managed balance sheet or a risky

1 balance sheet in the context.

2 The Home Loan Banks face a similar type of
3 challenge. Because of the joint and several obligations of
4 the System as a whole, the cost of funds from individual
5 Home Loan Banks is determined by the credit worthiness of
6 the System as a whole; and the GSE status of the System.
7 And that means that the risk, on any individual Home Loan
8 Bank's balance sheet, is not related to its cost of money;
9 and there is no market discipline on the individual Home
10 Loan Bank.

11 So I've always felt there was a risk that, in
12 effect, an individual Bank could shift risk to the System as
13 a whole because of the way in which funds are raised; and,
14 at the same time, profit individually by taking on more
15 risky assets. The extent to which that would happen has
16 been mitigated somewhat by the fact that the System has had
17 a meaningful capital structure. We are moving into a world
18 in which the Banks are going to have different capital
19 plans, as envisioned by Gramm-Leach-Bliley and as submitted
20 to us by the Home Loan Banks.

21 So one of the concerns I have is that when we go
22 forward and evaluate the plans of the individual Banks, that
23 we don't exacerbate the circumstance in which Banks,
24 individual Home Loan Banks, are incentivized to take on
25 added risk, so they can profit from it while, in fact, the

1 market discipline associated with that risk gets diluted
2 because the cost of the funds becomes greater than the cost
3 to the System as a whole.

4 We have a schedule where we're going to be looking
5 at Home Loan Banks' capital plans spread out over a period
6 of four to five months, which means that we're not going to
7 look at them as a whole; and we're not going to be able to
8 ask the question: Will we approve an individual Home Loan
9 Bank capital plan?

10 In fact, that plan is not going to exacerbate the
11 concern that we have. It is my concern, a legitimate
12 concern, and if it is: How will we address it?

13 MR. SMITH: Well, I believe that it is a
14 legitimate concern. I would also say, though, that the
15 staff has reviewed drafts of all of the capital plans so
16 far; and already submitted comments to the Banks on those;
17 and we will have completed at least eight versions and, in
18 some cases, the second round of review before the March 13th
19 Board meeting on all the final plans that have been
20 submitted.

21 So it will not really be the case, at least from
22 the staff perspective, of course, we are available to brief
23 any Board Member that requests. It will not be the case
24 from the staff perspective that we are looking at one Bank
25 without having at least looked at the other Banks' plans.

1 MR. BOTHWELL: If I could just add to that, I
2 understand the point about the cost of the COs being the
3 same for all the Banks. We, of course, have a risk-based
4 Capital Rule, which aligns the capital of a Bank with the
5 riskiness of that individual Bank's balance sheet. And we
6 also have a regulation that describes the process of
7 whatever happens if joint and several comes into play, any
8 potential loss to the Bank. The way that process would work
9 out would be, before that loss was transferred to another
10 Bank, that individual Bank capital would be used. So it's
11 cooperative banking, you all know, when the members and the
12 owners, and their capital is at risk, so they do have some
13 incentive to watch the risk return tradeoff in their
14 institution.

15 In addition to that, I would just say that the
16 staff is operating under the direction of the Chairman's
17 leadership with orders to look at the concept of having
18 minimum stock purchase requirements for major activities at
19 all Banks. Under that direction, we will have some kind of
20 common baseline for making activity-based capital choices
21 across the System. I don't think we're going to get into a
22 situation where we're coming to the Board with capital plans
23 that have widely divergent capital purchase requirements.

24 MR. SMITH: And that process will be completed
25 before the March 13th Board meeting. The Board would be in

1 a position to vote on the first plan.

2 MR. MENDELOWITZ: Does that mean, for example,
3 that for unsecured lending, as part of the investment
4 portfolio, a Bank is going to have a stock purchase plan?

5 MR. BOTHWELL: No. But stock purchase
6 requirements will --

7 MR. MENDELOWITZ: There will be risk-based capital
8 plan, but you are telling me there is no stock purchase plan
9 for unsecured lending. So that, by definition, all of the
10 assets on the balance sheet of an individual Home Loan Bank
11 would not have stock associated specifically with the stock
12 purchase requirement.

13 MR. BOTHWELL: Not with the stock purchase
14 requirement but with risk-based capital.

15 MR. MENDELOWITZ: Yes. I appreciate the extent to
16 which capital of a Bank is at risk, so there is some
17 discipline there. But we are dealing in a world, post-
18 Enron, in which there are legitimate questions about risks
19 out there that turn out to be greater than we thought they
20 were. The counterparty risk, I think, is greater than we
21 thought it was if only because our ability to rely on the
22 auditors, and the rating agencies, and the lawyers, and
23 corporate governments to assure that what we think we are
24 getting in the way of acquiring risk is there. We don't
25 have that assurance any longer at the level we had prior to

1 Enron.

2 And so I appreciate that while capital of an
3 individual Home Loan Bank may be at risk, there is many a
4 slip betwixt the cup and the lip when you can do things
5 within a range of risk where you say: Well, my capital is
6 not going to be at risk because I'm going to profit from
7 this, and the cost is going to be borne by the other Banks.

8 And so I would like to charge the staff, when you
9 come forward with an individual Bank's capital plan with a
10 recommendation for approval, that, for each plan that you
11 present to the Board, you can provide your absolute
12 assurance that there is nothing about that individual plan,
13 within the context of all of the capital plans, that will
14 exacerbate risk shifting and incentivize inappropriate
15 assumption of risk by an individual Bank.

16 MR. BOTHWELL: I'm not sure about the absolute
17 assurance part.

18 CHAIRMAN KORSMO: I think we can only do that
19 within the framework of the statute. There are no
20 absolutes. But I think the staff certainly is aware of your
21 and other Directors' concerns on this issue. And I think
22 that's one of the reasons why we want to make sure, even
23 with this fairly aggressive process, that everyone
24 understands that we are reviewing and assessing the plans
25 together rather than one at a time. Again, it's always

1 going to be difficult, if not impossible, to provide
2 absolute assurances up to -- excuse me, beyond the level of
3 what's required in the statute for us to be able to
4 guarantee, and I think the staff is certainly aware of that.

5 MR. SMITH: If I could add one other thing, too.
6 You made the reference to Enron and the reliance on rating
7 agencies and outside auditors and so forth. I think the
8 front line of safety and soundness review is here at the
9 Finance Board with our own crew of examiners and with the
10 rules that we write that the Banks have to comply with.

11 There are second and third lines of defense, if
12 you will, which do rely on rating agencies and outside
13 auditors and so forth, but the first line is really here.
14 It's with us. And I think that's a big difference.

15 MR. MENDELOWITZ: I don't want to appear to be
16 contradicting you for the sake of contradicting you, but my
17 view, and I hold this very strongly, the first line of
18 defense is corporate governance. The board of directors of
19 each Home Loan Bank is the first line of defense to ensure
20 the safety and soundness of the System and that the System
21 operates in compliance with law and regulation. Our
22 supervision staff, I believe, is the second line of defense;
23 and looking forward, we would do well to view this tiered
24 approach as who has responsibility.

25 Corporate governance, as we've seen in the case of

1 Enron, is absolutely essential to effective and safe and
2 appropriate legal management of the business. When
3 corporate governance fails, I think the examiners are there
4 to clean up the battlefield. Corporate governance should be
5 there to prevent the need of examiners going in after the
6 cleanup of the battlefield, after the damage has been done.

7 CHAIRMAN KORSMO: And I don't think you will get
8 any argument from anybody on this Board on that question. I
9 think we've all been fairly outspoken on that particular
10 issue, and I think we're unanimous on our view on that. Any
11 others? Yes, sir.

12 MR. LEICHTER: I think Dr. Mendelowitz raised an
13 important point. It really raises a matter that we've been
14 discussing among ourselves, which is whether we're going to
15 do all of the capital plans together, or whether we're going
16 to do them individually. Obviously, the resolution before
17 us calls for not doing them all together, although we will
18 be lumping some together.

19 But I think that, as was stated by the Chairman
20 and by the staff, that while we may do them individually,
21 try to do Seattle at the next Board meeting, it still will
22 be in the context of all the other plans, so that we know
23 what the other plans are, and in that regard, I just want to
24 renew my request, and I know the staff is working on it,
25 that we, as soon as possible, have a matrix that will allow

1 us to have a comparison of all of the plans. I think that's
2 going to be very important; and, obviously, as we act on
3 individual plans, we will need to consider how that plan
4 interacts with the other plans of the Banks. So I have been
5 proceeding in that way and I have no difficulty at all with
6 the schedule that's been set up. I just want to say to you,
7 Mr. Chairman, I really commend you for putting this sort of
8 a focus on getting these capital plans done. I think having
9 this sort of a schedule is healthy. I think it keeps
10 everybody's feet to the fire, including the Board of
11 Directors.

12 And I just want to emphasize that it, obviously,
13 requires the cooperation of the Banks. And I think we've
14 certainly had that cooperation, but we can only meet that
15 schedule if the Banks respond to the staff in a prompt
16 manner, and I expect that will be done.

17 So we've set ourselves a very challenging
18 schedule, and I think it's healthy to put it out front.
19 We're not afraid to say this is the schedule. If we don't
20 meet it, it's going to be due to failures on our part and
21 everybody will know it. We're not hiding. We're putting
22 this out there, and, Mr. Chairman, thank you for leading us
23 in this bold adventure.

24 CHAIRMAN KORSMO: Thank you, sir. Any other
25 comments or questions?

1 Hearing none, we would entertain a motion to adopt
2 the resolution.

3 MR. O'NEILL: So moved.

4 CHAIRMAN KORSMO: Mr. O'Neill has moved adoption
5 of the resolution. Is there any discussion of the motion?
6 Hearing none, the question is on the resolution to establish
7 dates for Board consideration of the Capital Plans. Madam
8 Secretary?

9 MS. BAKER: On the matter before the Board,
10 Chairman Korsmo, how do you vote?

11 CHAIRMAN KORSMO: Aye.

12 MS. BAKER: Director Leichter?

13 MR. LEICHTER: Yes.

14 MS. BAKER: Director Mendelowitz?

15 MR. MENDELOWITZ: Absolutely.

16 MS. BAKER: Director O'Neill?

17 MR. O'NEILL: Aye.

18 MS. BAKER: Director Weicher?

19 MR. WEICHER: Aye.

20 CHAIRMAN KORSMO: We have four ayes and one
21 "absolutely." With that, the resolution is adopted.

22 Is there any other business to come before the
23 Board? Mr. Intrater?

24 MR. INTRATER: Mr. Chairman, if you don't ask for
25 this, I have to, which is the authority of the Board to make

1 technical and conforming changes to any of the documents
2 that we propose to publish in the Federal Register, so that,
3 if Eric calls me tonight with another typo, we can make that
4 change before the documents go into the Federal Register.

5 CHAIRMAN KORSMO: Thank you, sir. I ask for
6 unanimous consent from the Board that the staff have
7 permission to make technical and conforming changes. Is
8 there any objection?

9 Hearing none, without objection that motion is
10 adopted.

11 Any other comments anybody has to make?

12 (No response.)

13 CHAIRMAN KORSMO: If not, thank you, Dr. Bothwell
14 and Mr. Smith and Mr. Intrater and all the members of the
15 staff who participated today. As I think you've heard from
16 several of the Members of the Board, we very much appreciate
17 the hard work the staff is doing and the effective work I
18 think we are doing in helping us address these important
19 issues.

20 Thank you, too, to the Members of the Board. I
21 appreciate this. In our first meeting of the new year, we,
22 admittedly, had items on the agenda that probably were not
23 controversial in any sense. I suspect that will not always
24 be the case, and so I thank you for your forbearance on
25 this, our first meeting of the full Board.

1 Thank you, too, John, for taking time to make it
2 by. We appreciate it very much. We know your schedule,
3 like all of our schedules, is very intense, and we
4 appreciate everybody being here.

5 With that, the meeting is adjourned.

6 (Whereupon, at 11:10 a.m., the meeting was
7 adjourned.)

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REPORTER'S CERTIFICATE

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DOCKET NO.: N/A
CASE TITLE: FHFB / Open Meeting
HEARING DATE: February 13, 2002
LOCATION: Washington, DC

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Federal Housing Finance Board.

Date: February 13, 2002

Charles Kera
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