

**Prepared Statement of Mr. Allan I. Mendelowitz
Member-Designate
Federal Housing Finance Board**

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

Mr. Chairman, Senator Gramm, Members of the Committee:

It is an honor to appear before you today to testify on my nomination to be a Member of the Board of Directors of the Federal Housing Finance Board (Finance Board). I would like to thank President Bush for nominating me and I would like to thank you, Senator Sarbanes, and Senator Daschle for your encouragement and support.

I would also like to thank my wife of almost thirty-five years, Shereen, who is here today. Without her support and encouragement I never would have been able to arrive at this point. She has been a reservoir of unending patience over the years in the face of many evenings when -- unplanned -- I stayed late in the office, weekends spent at work, and long absences when on travel.

Lastly, I have had the opportunity to work with your committee over the past two decades in several different capacities and on a number of diverse issues. It has been a privilege to work with the staff of this Committee because they stand out for their integrity, dedication and talent. I would like to take this opportunity to express my appreciation, in particular, to Steve Harris, Marty Gruenberg, and Pat Malloy (who served the committee for many years in the past) of the majority staff, and Wayne Abernathy of the minority staff.

The Federal Home Loan Bank (FHLBank) system plays an important role in promoting home ownership and lending by community financial institutions. In a time of rising direct capital market intermediation, the FHLBanks provide small community financial institutions access to the liquidity needed to meet the demand for credit worthy loans in their communities. The role of the Finance Board is to assure both the safety and soundness of the FHLBank system and the achievement of the public purposes for which the system was created.

This is a time of great change and complex challenges for the FHLBank system. Some changes have been mandated by statute and others are the result of the rapidly evolving state of financial institutions and markets in this country.

The Gramm-Leach-Bliley Financial Services Modernization Act mandated the Finance Board to develop a modern risk-based capital rule for the FHLBanks. That mandate included a very tight time frame under which the rule had to be completed. The Finance Board received broad-based substantive input, including comments and suggestions, from FHLBank members, the Congress, executive branch agencies, trade associations, and the FHLBanks themselves. The final capital rule received widespread support and was completed within the time frame mandated by the Congress. As required by statute, every FHLBank submitted a proposed capital plan to the Finance Board by the end of October and we are in the process of reviewing them. This could not have been achieved without the hard work and skills of the Finance Board's staff, which I have found to be some of the most capable and committed professionals with whom I have had the opportunity to work.

Another important matter with which we are grappling is how to respond to the implications for the FHLBank system of the dramatic changes that are taking place in financial markets, in general, and the membership of the FHLBanks, in particular. The Finance Board has received several unprecedented

petitions that have prompted consideration of these issues. These petitions, which have been received from three FHLBanks, request that some FHLBank members be allowed to join more than one FHLBank. These applications were the result of changes in the membership of the FHLBank system that followed from mergers and acquisitions that cut across the boundaries of different FLHBank districts.

To respond to the broad ranging and complex issues raised by these petitions, the Finance Board on September 26, 2001, issued a Solicitation for Comments that addresses the full range of issues raised by these petitions. I look forward to receiving good, creative, and thoughtful comments from all interested parties. I also look forward to working with this Committee, and others in the Congress, on this important issue. The resolution of these complex issues will require good information and analysis, and careful and thoughtful deliberation.

In closing, I would like to say again that I am honored to appear before you. If confirmed, I pledge to work closely with the Committee and continue the long-standing spirit of cooperation that has existed between the Federal Housing Finance Board and the Congress. I would also like to pledge to you today that I will work hard to ensure the safety and soundness of the system and ensure that the FHLBanks fulfill their public mission.

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