

FEDERAL HOUSING FINANCE BOARD

BOARD OF DIRECTORS MEETING

OPEN SESSION

Washington, D.C.

Wednesday, June 13, 2007

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

1 PARTICIPANTS:

2 Board Members

3 RONALD A. ROSENFELD, Chairman

4 ROY BERNARDI, Deputy Secretary of HUD

5 GEOFFREY BACINO, Director

6 ALICIA R. CASTANEDA, Director

7 ALLAN I. MENDELOWITZ, Director

8 Staff

9 SHELIA S. WILLIS, Secretary

10 Also Present

11 NEIL R. CROWLEY

12 STEPHEN M. CROSS

13 THOMAS HEARN

14 MIKE POWERS

15 CHRISTIE SCIACCIA

16 JANICE KAYE

17 J.P. GREEN

18 DARRIS MEEKS

19 CHRIS BOSLAND

20 JONATHAN LINDLEY

21 BILL GLAVIN

22 * * * * *

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

2 (10:02 a.m.)

3 CHAIRMAN ROSENFELD: Good morning
4 everyone, I'm calling this meeting of the Board of
5 Directors of the Federal Housing Finance Board to
6 order.

7 First of all, I'd like to introduce
8 Deputy Secretary Roy Bernardi, who is serving
9 instead of Secretary Jackson. I understand that
10 you are here under a delegation of authority from
11 the Secretary that authorizes you to act in our
12 board meeting. We welcome you, Deputy Secretary
13 Bernardi, and, on a personal basis, it's always
14 good to see you. Deputy Secretary Bernardi had been
15 the Mayor of Syracuse, New York, and has been at HUD
16 for a long, long time, along with me, and he's
17 just done a terrific job over there, and I feel
18 privileged to have him represent our country over
19 there and just to be a person that I can call a
20 friend.

21 DEPUTY SECRETARY BERNARDI: Thank you,
22 Mr. Chairman, nice to be here with you and the

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1 other members and the audience.

2 DIRECTOR MENDELOWITZ: Welcome.

3 MR CROWLEY: Mr. Chairman, for the
4 record, I just wanted to indicate that, as to the
5 authority of the Deputy Secretary to sit at the
6 meeting, we have consulted with the Staff at HUD,
7 and they have provided us with a copy of the
8 delegation of authority from the HUD Secretary
9 to the Deputy Secretary, and there is no question
10 he has the authority to sit and to participate in
11 the board meeting.

12 CHAIRMAN ROSENFELD: Thank you. So let
13 us proceed. Today we will have an open session
14 followed immediately by a closed session where the
15 Board will receive updates of examination and
16 supervisory material.

17 We now need to vote to approve the
18 closing of the latter portion of today's meeting,
19 as required by the Sunshine Act and Finance Board
20 regulations. And since the closed portion of
21 today's meeting will contain sensitive and
22 confidential bank examination information, I would

1 ask for a motion to seal the transcript of this
2 portion of the meeting.

3 Director Bacino?

4 DIRECTOR BACINO: Mr. Chairman, I move
5 to close the portion of today's meeting in which
6 we will receive updates of examination and
7 supervisory findings, and further, we determine
8 that the record and transcript of the closed
9 portion of this meeting be kept confidential.

10 CHAIRMAN ROSENFELD: Thank you for the
11 motion. Is there any discussion of the motion?
12 Any discussion?

13 We'll have a second.

14 DIRECTOR CASTANEDA: Second.

15 CHAIRMAN ROSENFELD: Thank you, Director
16 Castaneda. The Secretary will please call the
17 roll on the motion.

18 MS. WILLIS: The item before the Board,
19 Director Bacino, how do you vote?

20 DIRECTOR BACINO: Yes.

21 MS. WILLIS: Director Castaneda?

22 DIRECTOR CASTANEDA: Yes.

1 MS. WILLIS: Director Mendelowitz?

2 DIRECTOR MENDELOWITZ: Yes.

3 MS. WILLIS: Director Bernardi?

4 DEPUTY SECRETARY BERNARDI: Yes.

5 MS. WILLIS: Chairman Rosenfeld?

6 CHAIRMAN ROSENFELD: Yes. The motion is
7 carried and the subsequent portion of our
8 meeting will be closed, and its transcript will
9 remain closed and confidential. Thank you.

10 Now let us turn to the public portion of
11 today's meeting. The item on the agenda today is
12 a final rule to clarify the types of financial
13 investments and other relationships that an
14 appointed director may have with a member of the
15 Federal Home Loan Bank on whose board the director
16 serves.

17 Who will be making a Staff presentation?
18 Tom?

19 MR. HEARN: I will be making it.

20 CHAIRMAN ROSENFELD: Thank you

21 MR. HEARN: Good morning, Mr. Chairman,
22 and members of the Board. Today we are presenting

1 for your consideration a final rule that would
2 clarify the types of financial interest that an
3 appointed director may maintain and a member of
4 the Federal Home Loan Bank on whose board the
5 director serves.

6 The Federal Home Loan Bank Act prohibits
7 an appointive director from serving as an officer
8 or director of any member of a bank and from
9 holding shares or any other financial interest in
10 any member of the bank.

11 In the past the Finance Board has
12 generally applied these prohibitions on a
13 case-by-case basis. In order to ensure that these
14 prohibitions are applied consistently and to
15 provide guidance to the banks as they identify
16 well-qualified individuals as appointive director
17 candidates, on April 2, 2007, the Finance Board
18 published a proposed rule that would clarify the
19 types of financial interest that an appointive
20 director may maintain.

21 Key features of the proposed rule
22 included incorporating the Finance Board's

1 long-standing policy that a financial interest in
2 a bank member acquired through ownership of shares
3 of a diversified mutual fund is a permissible
4 holding for an appointive director; extending the
5 rationale for permitting mutual fund investments
6 to other types of vehicles and accounts that share
7 certain of the same key features as mutual funds,
8 and thus are unlikely to pose a risk of conflict
9 of interest for an appointive director;
10 incorporating long-standing policy that loans from
11 or deposits in a member are not a financial
12 interest in the member, if the transactions occur
13 in the normal course of business and on terms that
14 are not more favorable than those available under
15 like circumstances to members of the public,
16 establishing a threshold under which a contractual
17 relationship with a member is a permissible
18 interest if the money paid to the director in a
19 calendar year is 10 percent or less of the
20 director's adjusted gross income in that year, and
21 attributing the financial interest of an
22 appointive director's spouse or minor children to

1 the director for purposes of determining
2 compliance.

3 No comments were received on these
4 specific proposals, and we are recommending that
5 the Finance Board adopt them in the final rule as
6 proposed.

7 The proposed rule, also it proposed
8 allowing an appointive director to maintain a
9 financial interest in a holding company that
10 controls one or more members of the bank on whose
11 board the director serves, if the assets of such
12 member constitutes less than 25 percent of the
13 assets of the holding company on a consolidated
14 basis. In response to the proposed rule, one
15 commentor recommended that we increase the
16 percentage for holding companies to 50
17 percent. While we are declining to
18 endorse the recommended increase, we are
19 recommending that the 25 percent proposed
20 threshold be increased to 35 percent. We believe
21 that the 35 percent limit is consistent with the
22 rationale that investment in such a holding

1 company is predominantly an investment in
2 something other than a member of the bank.

3 The preamble to the proposed rules also
4 sought comment on whether the final rule should
5 extend the rationale for allowing an appointive
6 director to have a financial interest in a holding
7 company that controls one or more members to
8 allowing such a director to serve as a director or
9 officer of such a holding company. The Finance
10 Board proposed no regulatory amendment on this matter
11 but sought comment on whether it should apply a
12 single standard for both investments in holding
13 companies' securities and for other types of
14 relationships such as service as a director or
15 officer of a holding company or contractual
16 relationship with such a company.

17 The only comment received on this issue
18 recommended that the Finance Board apply a single
19 standard for assessing all relationships that an
20 appointive director may have with the holding
21 company for a member. Staff is persuaded that
22 a single standard is the better approach and thus

1 has recommended revising the final rule to
2 apply the same 35 percent of assets
3 test in determining whether an
4 appointive director service as an
5 officer or director of a holding company is
6 permissible.

7 I will be happy to answer any questions
8 that you may have.

9 CHAIRMAN ROSENFELD: Thank you. Any
10 board member comments?

11 DIRECTOR BACINO: Two questions. One
12 comment and two questions.

13 Tom, our ultimate goal seems to be to
14 ensure that an appointive director doesn't benefit
15 from also working with a member, correct?

16 MR. HEARN: That is, I believe, the
17 statutory policy behind the prohibition.

18 DIRECTOR BACINO: Okay, so what I get
19 then, I'm trying to say we're recognizing the
20 changing face of the financial services landscape,
21 things we didn't think of or weren't even around
22 20 or 30 years ago, we're now starting to see

1 occur, and we're trying to take that into
2 consideration.

3 MR. HEARN: I think that's right. I
4 think at the time the prohibition was put in place
5 in 1989, the legislative history expressly
6 addressed financial interests in members through
7 mutual funds, diversified mutual funds, as being a
8 permissible investment. And since that time the
9 marketplace has developed other investment
10 vehicles out there: limited partnerships, managed
11 accounts that have similar characteristics of
12 holding an interest in a member, as you would
13 have through a mutual fund.

14 And this rule would clarify that those
15 types of investments that share similar
16 characteristics as mutual funds would also be
17 permissible.

18 DIRECTOR BACINO: This process is not
19 like a one-time pass and then we don't look at it
20 again. This is kind of an ongoing process,
21 correct? I mean, you have to kind of qualify each
22 time, each year --

1 MR. HEARN: If they have an appointive
2 director, during the course of the tenure of their
3 appointment are no longer qualified, I believe
4 they have an obligation to notify the bank and/or
5 the Finance Board, and there's an annual
6 certification in which they certify to a continued
7 compliance with these requirements.

8 DIRECTOR BACINO: Thanks.

9 CHAIRMAN ROSENFELD: Other comments? If
10 there's nothing else, I would accept a motion to
11 approve the publication of final rule titled
12 Financial Interest of Appointive Directors and
13 allow the Staff to make technical and conforming changes
14 to the rule.

15 Is there a motion?

16 DIRECTOR BACINO: So moved.

17 CHAIRMAN ROSENFELD: Thank you. Do I
18 have a second to the motion?

19 DIRECTOR CASTANEDA: Second.

20 CHAIRMAN ROSENFELD: Thank you, Director
21 Castaneda. Would the Secretary please call the
22 roll?

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

3 DIRECTOR BACINO: Yes.

4 MS. WILLIS: Director Castaneda?

5 DIRECTOR CASTANEDA: Yes.

6 MS. WILLIS: Director Mendelowitz?

7 DIRECTOR MENDELOWITZ: Yes.

8 MS. WILLIS: Director Bernardi?

9 DEPUTY SECRETARY BERNARDI: Yes.

10 MS. WILLIS: Chairman Rosenfeld?

11 CHAIRMAN ROSENFELD: Yes. The motion's
12 adopted. This ends the open session of the
13 meeting. We will reconvene in closed session in
14 three minutes.

15 (Whereupon, at 10:11 a.m., the
16 PROCEEDINGS were adjourned.)

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