

FEDERAL HOUSING FINANCE BOARD

BOARD OF DIRECTORS MEETING

OPEN SESSION

Washington, D.C.

Thursday, January 18, 2007

ANDERSON COURT REPORTING
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PARTICIPANTS:

Board Members

RONALD A. ROSENFELD, Chairman

ALPHONSO JACKSON, HUD Secretary

GEOFFREY BACINO, Director

ALICIA R. CASTANEDA, Director

ALLAN I. MENDELOWITZ, Director

Staff Members

Shelia S. Willis

John P. Kennedy

Thomas Jennings

Neil Crowley

* * * * *

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P R O C E E D I N G S

(10:00 a.m.)

CHAIRMAN ROSENFELD: Why don't I call this meeting of the Board of Directors of the Federal Housing Finance Board to order.

Today we'll have an open session to consider one item, an interim final rule establishing procedures for the selection of appointive directors for the Boards of the Federal Home Loan Banks. Who will be making the presentations?

MR. JENNINGS: I will.

CHAIRMAN ROSENFELD: Good.

MR. JENNINGS: Good morning, everybody. At the December 22, 2006, Board meeting, the chairman directed staff to recommend to the Board a process by which the Finance Board could fill appointive directorship vacancies with individuals who have appropriate skills and experience to serve on the boards of directors of the 12 Federal Home Loan Banks. Today, staff is presenting to you for consideration an interim final rule which

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is designed to accomplish that objective.

The existing rule on appointive directors, which is section 915.10 of the Finance Board rules, is a one-sentence rule that has no procedural aspects to it. This rule being presented today establishes a procedure whereby information about individuals, their backgrounds, and their skills and experience are presented to the Finance Board for its consideration in determining whom it will appoint to fill appointive directorship vacancies at the Banks.

Under the procedures, the boards of directors of the Banks will examine the skills and experiences of individuals who are presented to it from two sources: Those individuals that the Bank itself has identified and those individuals who either have been identified by third parties who have an interest in having a successful Bank or wish to make known their own interest in serving on a Bank board. From among that group, the boards of directors of the Banks will determine which individuals are both eligible and best

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qualified to serve. Those are the individuals who, along with the information about their skills and experience, will be presented to the Finance Board for consideration.

This procedure is designed to enhance the ability of the Finance Board to identify appropriate individuals from within each Bank's district, which in turn should lead to the appointment of well-qualified individuals to serve on the boards of the Banks. A Bank and interested parties within a Bank's district will have local and regional knowledge which can be utilized to identify appropriate individuals. Each Bank will submit to the Finance Board a list of individuals equal to two times the number of appointive directorship vacancies at the Bank. On or before March 31 of this year, the Banks will submit to the Finance Board information to enable the Finance Board to appoint directors for terms expiring on December 31, 2008, and December 31, 2009. Thereafter, on or before October 31 of each year, the Banks will submit information to the

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Finance Board to enable the Finance Board to fill appointive directorship vacancies that occur after December 31 of that year, and whenever an unexpected vacancy occurs prior to the expiration of a 3 year term, a Bank will begin that process promptly to enable the Finance Board to fill that vacancy. If for any reason the Finance Board does not fill all vacancies at any Bank, it can require the Bank to submit a supplemental list for its consideration.

The Finance Board will provide an application form, which will accompany the list of individuals submitted to the Finance Board. The form is to be completed and signed by each individual on the list. The form is designed to provide information in those areas that the Finance Board will consider in determining which individuals to appoint. Because at least two of the individuals serving on the Bank's boards of directors will be chosen from organizations that represent consumer or community interests, a section of the form is devoted to providing

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information about such organizations with which the individual is associated.

Because this is a procedural rule requiring action very shortly, it will become effective on the date that it is published in the Federal Register. It is a final rule, but it also is an interim rule. The public may comment on the rule and on the form, and you may consider those comments in determining whether or not the rule should be modified.

I would welcome any questions you may have.

CHAIRMAN ROSENFELD: Thank you very much. Beyond the community interest directors whose qualifications are determined by statute, the public interest directors that the Finance Board appoints should be persons who have the background and experience appropriate to providing guidance to an entity as large and complex as a Federal Home Loan Bank. The process of initially identifying such persons and ascertaining their willingness to serve is best executed by each

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individual Bank.

Do any of my colleagues on the Board wish to comment or ask questions?

Yes, Geoff.

DIRECTOR BACINO: A brief comment.

First of all, I think this is -- our December meeting packed the room and our January meeting packed the room, so if we're not careful we're going to need to get more chairs or a bigger room here.

I'm happy today that we're acting to establish some procedures for the appointment of these public interest directors to the Federal Home Loan Banks. In addition to our statutory obligation to do, I think we have an operational obligation to make sure that the banks have a substantial number of highly qualified directors that will help them manage their enterprises.

The public interest directors of the Banks in the past have been picked, what I would call, on the three P's: popularity contest, personal friendships, or political patronage.

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This selection process that we're considering today is designed to result in the appointment of qualified directors and those who have experience in financial management, accounting, law, housing, housing finance, and community or economic development.

I would also state that in addition I think diversity should be a driving force behind these appointments: diversity of thought, diversity of expertise, and diversity of background.

Now, there is some thought that this process that we're going through today is meant to delay us getting this done. I would think the complete opposite. I think this is going to help us expedite the process to find highly qualified individuals to serve on these Boards.

And, finally, if for some reason this system doesn't work, we have the ability to go back, either ask for additional names from the Bank, or we can go back and revisit this system as a whole, and I don't think that anybody should

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underestimate the important that these directors play in the operations of the Bank. I guess, to paraphrase Col. Nathan Jessup, the Jack Nicholson character in the movie A Few Good Men, we want them on these Boards, and we need them on these Boards.

Thanks.

CHAIRMAN ROSENFELD: Any other questions, comments?

DIRECTOR CASTANEDA: No, go ahead, Allan.

CHAIRMAN ROSENFELD: Director Mendelowitz.

DIRECTOR MENDELOWITZ: Thank you, Mr. Chairman. Underlying this regulation is one important belief on the part of the board of directors of the Finance Board and, secondly, an important objective. The important belief that underlies this effort is that good public interest directors are critical to effective corporate governance of the Home Loan Bank system. They bring independence and necessary skills to ensure that the corporate governance of the Banks, which

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are a government-sponsored enterprise with a combined balance sheet graded in trillion dollars -- that's a trillion with a "t" -- not a "b" -- will be effective.

The objective is to create a process that removes partisan politics in the PID selection process and replaces it with a process that focuses on the nomination and selection of public interest directors who are able to make a significant contribution to the quality of corporate governance of the Banks in the system. And at the end of the process, it is the Finance Board that makes the final selection of public interest directors. There is nothing about this process that has the Finance Board pulling back from its statutory responsibility in that regard.

Obviously, we're considering this. We're going to vote on it. And if we approve it, it's because we think that this process will make a significant contribution to the improvement of Home Loan Bank corporate governance, but nothing, including a regulation, is written in stone. As

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all things, we'll stay on top of this in the coming years, and hopefully after a couple of years we'll assess how this is working. If it's working well, we'll continue. If we can think of improvements that should be made, we'll consider them at that time.

Thank you, Mr. Chairman.

CHAIRMAN ROSENFELD: Director Castaneda?

DIRECTOR CASTANEDA: Oh, Mr. Chairman.

First of all I would like to congratulate you on this proposal, which may have the potential to improve the director employment process.

I would strongly urge the Banks to validate our trust in them to take this new responsibility very seriously and work diligently to find qualified and truly independent director candidates. The only way this revised process will work is if they do it. Otherwise, as Director Mendelowitz and Director Bacino mentioned today, we may have to go back in a different direction.

CHAIRMAN ROSENFELD: Thank you.

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Anything else?

MR. MONTGOMERY: I just want to commend the staff and my colleagues for all their hard work on this, and I think it's long past due.

CHAIRMAN ROSENFELD: I, too, would like to compliment our staff. As you can tell from the comments and the dates, the development of this interim rule was done, I think, very effectively and very quickly. Again, I thank you very, very much.

I would also like to commend my colleagues on the Board. This is really getting to be quite a place, and I think that if one looks at least the relatively recent history of this organization, I think that I and I hope my colleagues are very proud to be a member of this board. I think we're doing appropriate work, I think we're being considerate, and I think that we're certainly maturing, as is so important in any regulatory organization that has the important responsibilities that we have. I think the capital rule which was enacted a few weeks ago, as

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well as this interim rule, speaks well of the quality of the work by done by this board. So, my colleagues on the Board really have my deepest appreciation, and I'm glad to be with you. It's a real privilege.

If there's nothing else, I would accept a motion to approve publication of the interim final rule titled Federal Home Loan Bank Appointive Directors and to allow staff to make technical and conforming changes to the rule. Is there a motion?

DIRECTOR MENDELOWITZ: I so move.

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

DIRECTOR BACINO: Second.

CHAIRMAN ROSENFELD: Thank you. Would the secretary please call the roll?

MS. WILLIS: On the motion before the board, Director Bacino, how do you vote?

DIRECTOR BACINO: Yes.

MS. WILLIS: Director Castaneda.

DIRECTOR CASTANEDA: Yes.

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MS. WILLIS: Director Mendelowitz.

DIRECTOR MENDELOWITZ: Yes.

MS. WILLIS: Director Montgomery.

MR. MONTGOMERY: Yes.

MS. WILLIS: Chairman Rosenfeld.

CHAIRMAN ROSENFELD: Yes. We have one other item before we adjourn.

John Kennedy, who has served with distinction as the Finance Board General Counsel since May of 2005, has decided to retire after 40+ years of federal service. He began his career as a nuclear weapons officer in the Army and has continued to want to blow things up wherever he goes.

(Laughter)

CHAIRMAN ROSENFELD: And then he spent more than 34 years in progressively more responsible positions as a lawyer for the U.S. Department of Housing and Urban Development. On a personal basis, I've worked closely with John both at HUD and the Finance Board, and he is an individual of the highest integrity and honor

whose sound counsel and advice has made a lasting and important contribution to the Finance Board and to the Federal Home Loan Banks. I want to thank him for his superior professional contributions and wish him much success and happiness in the future.

Do any other Board members wish to comment?

DIRECTOR CASTANEDA: John, the best to you.

MR. KENNEDY: Thank you.

DIRECTOR CASTANEDA: Enjoy your retirement.

CHAIRMAN ROSENFELD: Director Mendelowitz.

DIRECTOR MENDELOWITZ: Well, John is someone with whom I have a lot in common. We both ski and we both bike, and I realize you have a much more demanding job than me at the Finance Board, so with your retirement maybe we'll have the opportunity to do both. You'll be missed, and wish you well.

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MR. KENNEDY: Thank you very much.

CHAIRMAN ROSENFELD: If there --

DIRECTOR BACINO: As the last person to join the Board, I've had the least amount of time to work with you, but in that time you've been nothing but professional, and I appreciate all the guidance that you've given not only to me but also to the Board, I wish you well in your retirement and hopefully you'll come back and see us every now and then.

MR. KENNEDY: Let me say I would like to send my appreciation to the chairman for giving me this opportunity. I have thoroughly enjoyed it professionally and personally. It has given me an opportunity to learn about the Federal Home Loan Bank system, which, quite frankly, I wasn't completely familiar with when I came here. I was more familiar with Fannie Mae and Freddie Mac, but in the time I've been here I have really acquired a tremendous amount of knowledge that I probably won't be using in the future, and I also want to thank all the directors -- and including Franz, who's

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not here today.

I've had many discussions with all of you, many conversations, and they have always been professional. They have always improved the process. Individually with you I've had conversations on every single rule that we have advanced, and at the end of the day that deliberative process, the collegiality of this Board, has produced better results.

On a personal level, I want to thank all the staff in OGC and all the staff on the Finance Board. It is a truly professional organization. I am very impressed with how they get things done on time, under budget. It's been a nice experience to go from an agency like HUD, which has to go through a longer process to get things done. It has to go through OMB to get approvals on things, etc. This Board moves quickly but with great deliberation. It has been truly a wonderful experience.

Thank you.

CHAIRMAN ROSENFELD: If there's nothing

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else, I would accept a motion to approve a Certificate of Appreciation for John Kennedy's more than 40 years of distinguished service as a federal employee.

MR. MONTGOMERY: So moved.

CHAIRMAN ROSENFELD: So moved? Okay.
Thank you. Do I have a second for the motion?

DIRECTOR BACINO: Second.

CHAIRMAN ROSENFELD: Okay. Would the secretary please call the role?

MS. WILLIS: On the motion before the before, Director Bacino, how do you vote?

DIRECTOR BACINO: Yes.

MS. WILLIS: Director Castaneda?

DIRECTOR CASTANEDA: Yes.

MS. WILLIS: Director Mendelowitz.

DIRECTOR MENDELOWITZ: Yes.

MS. WILLIS: Dr. Montgomery.

MR. MONTGOMERY: Yes.

MS. WILLIS: Chairman Rosenfeld.

CHAIRMAN ROSENFELD: I'm thinking. Yes.
The motion's adopted. Thank you. We're

adjourned.

(Whereupon, at 10:18 a.m., the
meeting was adjourned.)

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