

FEDERAL HOUSING FINANCE BOARD

BOARD OF DIRECTORS MEETING

OPEN SESSION

Wednesday, August 9, 2006

Washington, D.C.

ANDERSON COURT REPORTING
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1 C O N T E N T S

2 PARTICIPANTS:

3 RONALD A. ROSENFELD, Chairman

4 GEOFFREY BACINO, Director

5 ALICIA R. CASTANEDA, Director

6 BRIAN MONTGOMERY, Director

7 ALLAN I. MENDELOWITZ, Director

8 SHELIA WILLIS, Secretary

9 JOHN KENNEDY

10 SYLVIA MARTINEZ

11 CHARLES MCLEAN

12 THOMAS HEARN

13 GARY TERNULLO

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

2 (10:00 a.m.)

3 CHAIRMAN ROSENFELD: Good morning. For
4 those of you who are interested, the autographed
5 portion of this session will be conducted by our
6 newest director after the meeting in the foyer.

7 Good morning, everyone. First I would like
8 to take this opportunity to welcome to our board Geoff
9 Bacino. I was going to say Geoff comes with a long
10 and distinguished background. He is too young to have a long
11 background, but certainly he does have a distinguished one,
12 and we look forward to working with Geoff over the next
13 number of years and welcome his insight and his
14 thoughts on the deliberations that we will be
15 having in the future. So welcome aboard, Geoff.
16 We are glad to have you.

17 DIRECTOR BACINO: Thank you.

18 CHAIRMAN ROSENFELD: We are glad to have
19 you.

20 DIRECTOR CASTANEDA: May I welcome him
21 also, Mr. Chairman? Welcome. We are looking
22 forward to working with you, and we are very happy

1 you are here.

2 DIRECTOR BACINO: Thanks.

3 DIRECTOR MENDELOWITZ: Everything she
4 said goes for me.

5 DIRECTOR CASTENADA: As always.

6 DIRECTOR MONTGOMERY: I second that.

7 CHAIRMAN ROSENFELD: Want to vote on that?

8 (Laughter)

9 CHAIRMAN ROSENFELD: I call the meeting
10 of the Board of Directors of the Federal Housing
11 Finance Board to order. Today we will have an
12 Open Session followed immediately by a Closed
13 Session where the board will receive updates for
14 examination and supervisory findings.

15 We now need to vote to approve closing
16 the latter portion of today's meeting, as required
17 by the Sunshine Act and Finance Board regulations.
18 Since the closed portion of today's meeting will
19 contain sensitive and confidential bank
20 examination information, I would ask for a motion
21 to seal the transcript of this portion of the
22 meeting. Director Bacino?

1 DIRECTOR BACINO: Mr. Chairman, I move
2 to close the portion of today's meeting, at which
3 we will receive updates of examination and
4 supervisory findings. Further, that we determine
5 that the record and transcript of this closed
6 portion of the meeting be kept confidential.

7 CHAIRMAN ROSENFELD: Thank you for the
8 motion. Is there any discussion of the motion?
9 Do I have a second to the motion?

10 DIRECTOR CASTENADA: I second.

11 CHAIRMAN ROSENFELD: Thank you, Director
12 Castaneda. The secretary will please call the
13 roll on the motion.

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

16 DIRECTOR BACINO: Aye.

17 MS. WILLIS: Director Castaneda?

18 DIRECTOR CASTANEDA: Yes.

19 MS. WILLIS: Director Mendelowitz?

20 DIRECTOR MENDELOWITZ: Yes.

21 MS. WILLIS: Director Montgomery?

22 DIRECTOR MONTGOMERY: Yes.

1 MS. WILLIS: Chairman Rosenfeld?

2 CHAIRMAN ROSENFELD: Yes. The motion is
3 carried and the subsequent portion of our meeting
4 will be closed and this transcript will remain
5 closed and confidential. Thank you.

6 CHAIRMAN ROSENFELD: Let us now turn to
7 the public portion of today's meeting. I move to
8 remove the second item entitled, Proposed Bank
9 Examination Rating System, from today's agenda
10 because the Finance Board's business so requires.
11 No earlier notice of this change was possible. Is
12 there any discussion on the motion? Do I have a
13 second for the motion?

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: On the item before the
19 board, 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 Montgomery?

4 DIRECTOR MONTGOMERY: Yes.

5 MS. WILLIS: Chairman Rosenfeld?

6 CHAIRMAN ROSENFELD: Yes. The motion is
7 carried. Now let us move on to the remaining
8 agenda item, which is a resolution, placing
9 Reporting Requirements for the Affordable Housing
10 Program and Other Community Investment Cash
11 Advances Program Into the Data Reporting Manual of
12 the Finance Board. Who will be making the
13 presentation?

14 MR. HEARN: I'll be introducing the
15 recommendation, and Gary Ternullo and Charles
16 McLean are here to discuss the substantive nature
17 of the requirements.

18 Good morning, Mr. Chairman and Board
19 members. We are recommending today that the Board
20 adopt a resolution adding Reporting Requirements
21 for the Affordable Housing Program and Other
22 Community Investment Cash Advance Programs to the

1 Finance Board's Data Reporting Manual. The
2 Finance Board created the Data Reporting Manual in
3 July 2005, as part of the agency's reorganization
4 of reporting requirements.

5 When reporting requirements are adopted
6 by the Board of Directors, they become an
7 enforceable requirement on the banks. The Finance
8 Board can redress failures with respect to
9 reporting requirements with formal or informal
10 enforcement powers granted to it under the Federal
11 Home Loan Bank Act.

12 As part of the reorganization of
13 reporting requirements, the Board of Directors
14 added to the Reporting Manual reporting
15 requirements related to the Call Report System in
16 July 2005, bank membership in August 2005, and
17 acquired member assets and bank director
18 eligibility in June of this year. We now
19 recommend that the Board adopt the reporting
20 requirements for AHP and CICA and instruct that
21 they be added to the Data Reporting Manual.

22 Charles McLean and Gary Ternullo from

1 the Office of Supervision and members of their
2 staff have worked on preparing these reporting
3 requirements over the last two years, as well as
4 Sylvia Martinez, who is with us today if you have
5 questions. They are here with me today and can
6 answer substantive questions that you may have
7 with respect to the requirements.

8 I will be happy to answer any questions
9 you may have with respect to the Reporting Manual
10 and the legal significance of adding the AHP and
11 CICA requirements to it. If there any questions,
12 we will be happy to answer them.

13 DIRECTOR CASTANEDA: I think probably we
14 would like to hear from Charles now.

15 MR. MCLEAN: Some of the key aspects of
16 the AHP database project are these, that the new
17 AHP database allows for better project tracking,
18 better monitoring of the circulation of funds, and
19 provides data on households who participate in the
20 AHP set aside for the first time.

21 In addition to simplifying data
22 collection for the banks, it will replace the

1 database that has arcane business rules and
2 outmoded technology. Also for the first time in a
3 number of years, we will have a database with CIP
4 and CICA information available to us. We will
5 capture members' participation and the types of
6 activities that were funded. The project will
7 also utilize the CRS for important financial
8 reporting data for both AHP and CICA, offering
9 quarterly reports on AHP contributions,
10 commitments, disbursements, deobligations and
11 repayments.

12 The CIP/CICA CRS will report commitments
13 and disbursements and outstandings. As Tom noted,
14 the staff has worked with the banks extensively
15 since 2004. As late as April 2006, all data
16 elements and definitions were provided to the
17 banks for their review, and staff has responded to
18 their inquiries. After testing this fall, the
19 banks will upload the data into the new database
20 starting in January 2007.

21 CHAIRMAN ROSENFELD: Gary?

22 MR. TERNULLO: I will just add where we

1 are in the process. This is the fifth of the
2 chapters that the Board has been asked to review
3 for inclusion in the manual. This concludes our
4 major data collections over the course of the next 12
5 to 18 months. There may be some minor ones that come
6 up, and there will be some changes that the Board
7 is asked to review on the existing chapters, but
8 this concludes the greatest part of the effort to
9 put together a data reporting manual.

10 CHAIRMAN ROSENFELD: Thank you. Do any
11 of the Board members wish to comment?

12 DIRECTOR CASTANEDA: I just would like
13 to commend our staff on the way they have worked
14 through this process. Based on the presentation
15 you gave us today and the briefing the other day,
16 it seems to me very clear that staff have worked
17 cooperatively and productively with the community
18 investment and IT experts at the banks. You got
19 constructive feedback and have maintained the
20 communication and transparency throughout the
21 process. So, good job.

22 CHAIRMAN ROSENFELD: Director

1 Mendelowitz?

2 DIRECTOR MENDELOWITZ: Do you have any
3 idea of how much it is going to cost the banks to
4 comply with it? This imposes a financial cost on
5 the banks because they will have to get their
6 reporting systems in line and they have to
7 follow-up and they have to report, and I was just
8 curious what it is going to cost them.

9 MR. TERNULLO: It is going to vary by
10 bank depending on their IT capacity and how many
11 resources they have to bring to bear on it. We
12 have tried to reduce the cost as much as possible.

13 Our plan is to have different ways for
14 them to submit the data. Some of them may choose
15 to do it in XML when it's done, others may choose
16 to provide a file that is just derived from a
17 spreadsheet, so it is going to vary according to
18 what their wishes are and what their capacity is.
19 I don't believe it is going to be a heavy burden
20 on the technical side unless they choose to
21 redesign some of their databases in the process.

22 DIRECTOR MENDELOWITZ: Do you have any

1 kind of ballpark estimate for the system as a
2 whole? Is this a million dollar cost for the
3 system as a whole? Is it a \$10 million cost? Is
4 it a \$50 million cost?

5 MR. TERNULLO: I don't think we've ever
6 been able to pin that down. In your discussions,
7 Charles, has cost come up?

8 MR. MCLEAN: No, cost has not come up in
9 any substantive way.

10 DIRECTOR MENDELOWITZ: Because I think
11 if we take an action, we have to be able to
12 justify that action in terms of the benefit that
13 we receive in terms of our ability to be an
14 effective supervisor, regulator, or overseer. But
15 at the same time, we should know that it is
16 costing the system simply because everything
17 involves a cost and everything is a benefit.

18 They are businesses. We have imposed a
19 lot of costs on them over the course of the past
20 couple of years. SEC registration has
21 substantially increased the cost of operations.
22 I'm not suggesting that we shouldn't do this,

1 because I think this is something important to do,
2 but I think as a practical matter and as a good
3 business matter, we should have an idea what these
4 things cost.

5 I think it would be good, without
6 imposing too much of a burden on the banks, to
7 find out exactly what the reporting burden is
8 costing the banks. I would find that very useful
9 and important information.

10 The second question is, would you go
11 back over a little bit the process, how long this
12 has been going on and the actual steps in the
13 process and the back and forth? When I got
14 briefed on that I found that interesting and I
15 think really important, because I think it gives
16 us insights into how good a role we've developed
17 here. Can you go back? You said this was a
18 two-year process?

19 MR. MCLEAN: Yes. Starting in September
20 2004, a letter, along with attachments, was sent
21 to the CIOs asking them to review documents and
22 provide feedback. Again, in April 2005, the

1 Finance Board put out a rule in the Federal
2 Register. The comment period ended in June 2005.
3 This year in March there were a number of
4 conference calls with both the Community
5 Investment staff and the IT staff from the banks
6 that were held to apprise them of new
7 developments.

8 Then again, on April 30, all of the new
9 data elements, as well as the ones that were in
10 the initial proposed rule, were communicated to
11 the CIOs and their staff. All definitions,
12 reporting requirements, and reporting dates were
13 also provided to them. We asked the banks to
14 review that information and provide comments to
15 us.

16 Subsequently, we had an ongoing dialogue
17 with the banks in terms of clarifying those
18 definitions and the reporting requirements.
19 Again, in May 2006, in another conference call
20 with the CIOs and IT staff, we talked about the
21 design specifications and additional
22 implementation. We sent a final version of the

1 DRM to the CIOs and their staff on June 1, 2006,
2 and we had a subsequent conference call with them
3 in the middle of June, again, to discuss that DRM.
4 On an ongoing basis our staff has been involved
5 with the banks in regard to both the Legacy
6 database, which is the current database, and the
7 clean-up project that is going on there, as well
8 as fine-tuning some of the definitions and some of
9 the requirements of this new responsibility.

10 DIRECTOR MENDELOWITZ: When you
11 implement, are you anticipating any problems?

12 MR. TERNULLO: With actually putting
13 this all together and making it work, no.

14 DIRECTOR MENDELOWITZ: I will say I am
15 impressed by the process because you could have
16 set out to do this just talking to yourselves.
17 You could have just sat there and not talked to
18 anybody outside of your immediate staff, Gary,
19 your staff, Charles, your staff, and you would
20 have produced something which probably would have
21 looked good on a piece of paper, but when you went
22 to execute, I'm willing to bet it would have blown

1 up.

2 Because to turn out a good rule you have
3 to consult with all of the repositories of
4 expertise and you have to consult with all those
5 who are going to be affected by the rule so that
6 you in fact really know whether this works or
7 doesn't work. The fact that it took two years is
8 an indication of both the complexity of what
9 you're proposing to do and what it takes to do a
10 good rule that involves a complex set of issues
11 that affects a large number of systems throughout
12 the Home Loan Bank network.

13 I would say that I am willing to accept
14 your judgment, Gary, that in fact you don't
15 anticipate problems rolling this out. I think you
16 have done a very careful, thoughtful job that is a
17 result of extensive consultation back and forth
18 between your staff and the banks so that you did
19 it right the first time.

20 I think that that is emblematic of how
21 every rule should be developed in this system. We
22 shouldn't be rushing to judgment. We shouldn't be

1 trying to meet some arbitrary time lines, whether
2 they make sense or don't make sense. We should be
3 working on trying to make sure we have the right
4 information and the right consultation so that
5 when we do bring the rule to the table, we have a
6 really good rule that is going to work well and it
7 is not going to blow up in our faces and it's not
8 going to be dysfunctional when we try to use it.

9 I really want to congratulate you for
10 not only doing something very important, and not
11 only for doing something important well, but
12 having done something important in the right way.
13 Thank you.

14 DIRECTOR MONTGOMERY: I have a question
15 with respect to OMB, I'm assuming they have been generally
16 supportive of this effort all along. Do you
17 anticipate any problems once the rule go to OMB
18 for their review?

19 MR. HEARN: No, we don't. OMB gets
20 involved in the process with the Paperwork
21 Reduction Act, and if the Board adopts this
22 resolution we will then send what is considered

1 the second notice of the Paperwork Reduction Act
2 to OMB for their review, and I don't anticipate
3 any sort of concern there.

4 DIRECTOR MONTGOMERY: Thank you.

5 CHAIRMAN ROSENFELD: If there is nothing
6 else, I will accept a motion to approve the
7 resolution.

8 DIRECTOR BACINO: Mr. Chairman, just
9 one quick question for Gary. Gary, you mentioned
10 earlier that this was the fifth of the last, or
11 the last of the major chapters. What is the time
12 line for finishing out the rest of it? Then my
13 follow-up would be, is it an ongoing process? Are
14 you going to continue to review them in the next
15 couple of years?

16 MR. TERNULLO: It is ongoing. There are
17 a number of reports that are submitted to the
18 Finance Board that we are still identifying,
19 smaller ones that come in occasionally or
20 regularly and some of those may be considered for
21 inclusion.

22 There are other chapters that will be

1 considered, and we can't even say what they all
2 are yet. As for the ones that are in there, they
3 will be ongoing. We need to respecify virtually
4 all of our databases aside from AHP because that
5 has already gone through the process, and that's
6 what we're working on.

7 CHAIRMAN ROSENFELD: Is there a motion?

8 DIRECTOR MENDELOWITZ: I so move.

9 CHAIRMAN ROSENFELD: Thank you, Director
10 Mendelowitz. Do I have a second?

11 DIRECTOR CASTANEDA: Second.

12 CHAIRMAN ROSENFELD: I'm glad you're
13 here. Every motion and you're there. Thank you,
14 Director Castaneda. Will the secretary call the
15 roll?

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

18 DIRECTOR BACINO: Yes.

19 MS. WILLIS: Director Castaneda?

20 DIRECTOR CASTANEDA: Yes.

21 MS. WILLIS: Director Mendelowitz?

22 DIRECTOR MENDELOWITZ: Yes.

1 MS. WILLIS: Director Montgomery?

2 DIRECTOR MONTGOMERY: Yes.

3 MS. WILLIS: Chairman Rosenfeld?

4 CHAIRMAN ROSENFELD: Yes. The motion is
5 adopted. This ends the Open Session of the
6 meeting. We will reconvene in Closed Session in
7 three minutes.

8 (Whereupon, at 10:17 a.m., the Open
9 Session was adjourned.)

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