



## REGULATORY INTERPRETATION 2000-RI-19

**Date:** September 8, 2000

**Subject:** Election of Directors of the Federal Home Loan Bank of Des Moines

***Request Summary:***

The Federal Housing Finance Board (Finance Board) has received a number of inquiries concerning recent amendments to its regulations pertaining to the election of Federal Home Loan Bank (Bank) directors. Because of those inquiries, the Finance Board has determined to provide to each Bank written guidance on how the amendments are to be applied to the Bank, which is the purpose of this regulatory interpretation.

***Background:***

On June 23, 2000, the Board of Directors of the Finance Board adopted a final rule implementing the amendments made by the Gramm-Leach-Bliley Act, Pub. L. No. 106-102, 133 Stat. 1338 (Nov. 12, 1999) (GLB Act), regarding the election of directors of the Banks. 65 Fed. Reg. 41560 (July 6, 2000) (final rule). The final rule, which took effect on August 7, 2000, addresses the status of the 1999 director elections conducted by each Bank and how the terms of the elected directors are to be adjusted in order to stagger the board of directors, as required by the GLB Act.

***Analysis and Interpretation:***

The final rule includes a matrix for the Des Moines Bank, which indicates that only three of the six elected directorships with terms commencing on January 1, 2001 shall have a full three-year term. Of those directorships that are to be assigned a two-year term, the matrix further indicates that one shall be from Iowa and one shall be from Minnesota. The final rule assigns to the board of directors of the Des Moines Bank the responsibility for determining which of the other states shall be assigned a directorship with a two-year term, which the board may do on any reasonable basis. Accordingly, the first action that the board of directors of the Des Moines Bank must take under the final rule is to assign a directorship with a two-year term to one of the four states for which an elected directorship is to commence on January 1, 2001, *i.e.*, Missouri, South Dakota, Iowa, or Minnesota, as indicated in the matrix. The board need not make any such determination with regard to the directorships commencing on January 1, 2002. 12 C.F.R. § 915.17(a)(3), *as amended*.

After assigning the directorship with a two-year term to one of those four states, the board of directors next must determine the manner in which to fill the Bank directorships that have terms commencing on January 1, 2001. The final rule requires the Bank to conduct a new election for those directorships only if, for any state, there are not enough eligible candidates remaining from the 1999 election for that state (*i.e.*, those candidates who remain eligible to serve as a Bank director) to fill all of the elected directorships for that state that are to commence on January 1, 2001. Thus, the Bank must first determine whether the number of candidates from each state in the 1999 election who remain eligible to serve equals or exceeds the number of directorships for that state that are to commence on January 1, 2001. If so, then no new election is required. If not, then the Bank must conduct a new election for that state in 2000, in which election all directorships from that state that commence on that date would be included.

If no new election is required, then the board of directors, in its discretion, may determine whether to conduct new elections in 2000 (which would have to be for all states in which an elected directorship commences on January 1, 2001) or to declare elected those candidates who were elected in the 1999 elections, after confirming their eligibility to serve. If the board of directors were to adopt the results of the 1999 election, those results also would be used to determine which directors within a particular state are to be assigned to a reduced term, as well as which are to be assigned to a non-guaranteed directorship. If the board were to conduct new elections in 2000, it would use the results from those elections to assign reduced terms and non-guaranteed directorships.

With respect to elected directorships with terms commencing January 1, 2001, the director-elect from Minnesota who receives the most votes in the election must be assigned to the guaranteed directorship, which will be for a two- or three-year term, depending on how the board of directors has assigned the two-year term, as described previously. The director-elect from Minnesota with the second most votes must receive the non-guaranteed directorship, the term of which will be two years. If the board were assign directorships in this manner and were to adopt the 1999 election results, and the persons who received the most votes in the 1999 elections remain eligible, Mr. Fruechte would receive the guaranteed directorship and Mr. Talen would receive the non-guaranteed directorship. Similarly, if the board of directors were to assign a three-year term to one of the Iowa directorships, the director-elect from Iowa who receives the most votes must be assigned the three-year term and the director-elect with the second most votes would receive the directorship with a two-year term, both of which are guaranteed directorships. If the board was to assign the Iowa directorships in this manner and was to adopt the 1999 election results, and all candidates from the 1999 election remained eligible, Mr. Torpey would receive the three-year term and Mr. Larson would receive the two-year term.

With respect to the directorships that are to commence on January 1, 2002, and assuming no change in the designation of directorships, the candidate from Missouri who receives the most votes in the 2001 election must be assigned a guaranteed directorship for a three-year term, and the candidate from Missouri who receives the second most votes must receive the non-guaranteed directorship for a one-year term.

A Regulatory Interpretation applies only to the particular transaction or activity proposed by the requestor, may be relied upon only by the requestor, and is subject to modification or rescission by action of the Board of Directors of the Finance Board. 12 C.F.R. part 907.