



May 26, 2000

Executive Vice President and Chief Operating Officer
Federal Home Loan Bank

NO-ACTION LETTER: Amendment of Federal Home Loan Bank President's Incentive
Compensation Plan (2000-NAL-03)

Dear Mr. :

This letter is in response to the Federal Home Loan Bank (FHLBank) request for the Federal Housing Finance Board (Finance Board) to waive the provisions of the former Compensation Regulation with respect to amendments to the FHLBank President's 1999 incentive compensation plan (Plan).

We understand that, in accordance with the Finance Board's former Compensation Regulation, the FHLBank board of directors adopted a resolution on or before January 31, 1999, establishing the performance measures and targets upon which the President's 1999 incentive compensation would be based. *See* former 12 C.F.R. § 932.19(c)(2)(iv). We understand further that, in February 1999, the FHLBank board of directors approved a resolution that changed the President's incentive compensation plan to exclude prepayment fee income and any gain or loss on the early retirement of debt from the GAAP ROE ranking goal and adjusted six of the twelve advance growth goals. We also understand that in March 1999 the FHLBank board of directors adopted a resolution that was purely technical in nature to correct a mathematical error in the Plan.

On September 21, 1999, the Finance Board's Office of Supervision issued Advisory Bulletin Number 99-11, which advised the FHLBanks that they must obtain a waiver of the Compensation Regulation prior to amending a President's Plan after the January 31 deadline. The FHLBank board of directors did not obtain the waiver of section 932.19(c)(2)(iv) of the Compensation Regulation prior to amending the President's Plan. Because the FHLBank board of directors already had amended the President's Plan prior to the issuance of the Advisory Bulletin, and the FHLBank was, therefore, in violation of the Compensation Regulation, the FHLBank now is requesting that the Finance Board waive the former Compensation Regulation with respect to the amendments made in February and March 1999. Because the FHLBank request for regulatory relief was made after the FHLBank board of directors amended the President's 1999 Plan, Finance Board staff has analyzed this request as a request for a no-action letter rather than as a request for a waiver.

In order to issue a no-action letter as to the February amendments, Finance Board staff would need to be satisfied both that: (i) it would have recommended approval of a request from the FHLBank for waiver of former section 932.19(c)(2)(iv) had such request been made on a timely basis, *i.e.*, before the FHLBank board of directors action of February 1999; and (ii) that the matter is material, *i.e.*, that a no-action position adopted by Finance Board staff at this time would have an effect on the incentive compensation earned by or paid to the FHLBank president.

Finance Board staff has determined that the amendment made in March 1999 to correct the mathematical error was within the FHLBank board of directors purview to make without Finance Board approval due to its purely technical nature.

I believe that Finance Board staff would have recommended approval of a timely request for a waiver on the amendment to exclude prepayment fee income and any gain or loss on the early retirement of debt from the GAAP ROE ranking goal. I do not believe staff would have recommended approval of the adjustments made to six of the advance growth goals, because the FHLBank was proposing to amend the Plan to decrease five of the six amended performance targets. As to the materiality of the changes, based upon information you provided to Finance Board staff, the impact of the February amendments is not material. If the Finance Board provides a no-action letter with regard to the February 1999 amendments, it would result in the President's earning \$115 less in incentive compensation, which is not a material impact upon his compensation. As a result, we see no reason for the FHLBank to use the amended Plan in setting the FHLBank President's incentive compensation for 1999. Accordingly, there is no reason for a no-action letter allowing the use of the amended Plan and, therefore, the request for a no-action letter is denied.

If you have any questions regarding this letter, please contact Jennifer R. Salamon of the Program Assistance Division at (202) 408-2974.

Sincerely,

/s/ William W. Ginsberg

William W. Ginsberg
Managing Director

cc: James L. Bothwell
Mitchell Berns
Deborah F. Silberman