



REGULATORY INTERPRETATION 2000-RI-21

Date: September 8, 2000

Subject: Election of Directors of the Federal Home Loan Bank of Topeka

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 Topeka Bank, which indicates the duration of the term to be assigned to each elected directorship and whether the directorship is to be guaranteed or non-guaranteed. Of the five elected directorships with terms commencing on January 1, 2001, three are to have a full three-year term and two are to have a two-year term. Of the five elected directorships with terms commencing on January 1, 2002, three are to have a full three-year term and two (each of which is a non-guaranteed directorship) are to have one-year terms.

The first action that the board of directors of the Topeka Bank must take under the final rule with regard to its elected directorships is to determine the manner in which to fill those 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. If the board were to conduct new elections in 2000, it would use the results from those elections to assign reduced terms. Ordinarily, the election results also are used to assign non-guaranteed directorships, though there are no such directorships with terms commencing on January 1, 2001.

Assuming that the board of directors were to adopt the 1999 election results for each state, and that each of the directors-elect remains eligible to serve, then Mr. Berg, Mr. Robbins and Mr. Cox each would be awarded a guaranteed directorship from Colorado, Kansas and Oklahoma, respectively, each with a term of three years. Mr. Parker would be awarded a guaranteed directorship from Colorado with a term of two years, and Mr. Wentz would be awarded a guaranteed directorship from Kansas with a term of two years. With respect to the directorships that are to commence on January 1, 2002, and assuming no change in the designation of directorships, the directors-elect from Kansas, Oklahoma and Nebraska who receive the most votes in the 2001 election must be assigned a guaranteed directorship for their respective states, which is to have a term of three years. The directors-elect from Nebraska who receive the second and third most votes each must be assigned a non-guaranteed directorship with a term of one year.

With regard to the class of directorships with terms that are to commence on January 1, 2002, one of the non-guaranteed directorships now designated to Nebraska had previously been designated to Oklahoma, but was redesignated as part of the annual designation of directorships conducted by the Finance Board in 2000. As a result of that redesignation, one of the two incumbent directors from Oklahoma whose term is scheduled to expire at December 31, 2001, will cease to be eligible to serve as a Bank director as of December 31, 2000, because the directorship he holds must be filled by an officer or director of a member located in Nebraska. Under the final rule, if there is more than one director who may be affected by the redesignation, which is the case in Oklahoma, it is the director who had received the fewest votes in the most recent election that is deemed to become ineligible as a result of a redesignation of the directorship in 2000. Accordingly, Mr. Hamby will cease to be eligible to remain in office as of close of business on December 31, 2000, and the resulting vacancy must be filled for the remainder of the term, *i.e.*, until December 31, 2001, by the board of directors of the Topeka Bank.

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.