



REGULATORY INTERPRETATION 2000-RI-22

Date: September 8, 2000

Subject: Election of Directors of the Federal Home Loan Bank of San Francisco

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 San Francisco Bank, which indicates that only three of the four elected directorships with terms commencing on January 1, 2001 may have a full three-year term, with the remaining directorship being assigned a two-year term. The matrix further indicates that only two of the four elected directorships with terms commencing on January 1, 2002 may have a full three-year term, with the remaining two directorships having terms of one year. With regard to the directorships with terms commencing on January 1, 2002, the matrix provides that one of the directorships with a one-year term shall be assigned to California, and the final rule assigns to the board of directors of the Bank the responsibility for determining which state shall be assigned the remaining directorship with a one-year term, which the board may do on any reasonable basis. Accordingly, the first action that the board of directors of the San Francisco Bank must take under the final rule is to assign one directorship with a one-year term to one of the three states for which an elected directorship is to commence on January 1,

2002, *i.e.*, California, Nevada or Arizona, as indicated in the matrix. The board need not make any such determination with regard to the elected directorships that are to commence on January 1, 2001. 12 C.F.R. § 915.17(a)(3), *as amended*.

After assigning the directorship with a one-year term to one of those three 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, all of which are from California. The final rule requires the Bank to conduct a new election for those directorships only if there are not enough eligible candidates remaining from the 1999 election (*i.e.*, those candidates who remain eligible to serve as a Bank director) to fill all of the elected directorships for California that are to commence on January 1, 2001. Thus, the Bank must first determine whether the number of candidates from California 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 California in 2000, in which election all directorships that commence on January 1, 2001 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 for California, 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 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 a new election in 2000, it would use the results from that election to assign reduced terms and non-guaranteed directorships.

With respect to the elected directorships with terms commencing January 1, 2001, each is from California; two of them are non-guaranteed, with terms of three and two years, respectively. The allocation of the directorships among the four California directors-elect must be done on the basis of the number of votes received by each director-elect. The two directors-elect who receive the most votes must be assigned the two guaranteed directorships, each of which has a three-year term. The director-elect who receives the third most votes is to be assigned a non-guaranteed directorship with a three-year term, and the director-elect who receives the fourth most votes is to receive a non-guaranteed directorship with a term of two years.

Assuming that the board of directors were to adopt the 1999 election results and that each of the directors-elect remains eligible to serve, Mr. Blunden and Ms. Heimbuch each would be assigned a guaranteed directorship; Mr. Lowrey would receive the non-guaranteed directorship with a three-year term and Mr. Terzian would receive the non-guaranteed directorship with a 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 director-elect from California who receives the most votes in the 2001 election must be assigned the guaranteed directorship for that state, the term of which will be either one or three years, depending on how the board of directors has assigned the directorships among the states, and the director-elect from California who receives the second most votes must be assigned to the non-guaranteed directorship, which is to be for a one-year term.