



table of contents

page 3 FHLBank System marks 70th anniversary

page 4 new staff strengthens supervisory role

page 5 study reviews staffing, salaries, structure

page 6 President Bush nominates new board member

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FHLBank Capital Plans Approved, Marking System 'Watershed'

The nation's 12 Federal Home Loan Banks reached an historic achievement on July 18, when the Federal Housing Finance Board approved the final capital plan required under the Gramm-Leach-Bliley Act.

At a special meeting in New York City, the Finance Board unanimously accepted the proposed capital plan for the FHLBank of New York.

The board met in the ceremonial courtroom at the Daniel Patrick Moynihan United States Courthouse, an event that also served to commemorate the 70th anniversary of the Federal Home Loan Bank System.

Gramm-Leach-Bliley mandated the replacement of the existing subscription capital structure with a modern capital structure, with risk-based and leverage capital requirements similar to those of depository institutions.

Finance Board Chairman John T. Korsmo noted the FHLBanks had completed – and the Finance Board had approved – all 12 capital plans according to timeline required by the law. The board kept to the schedule despite the heavy workload involved, including five regular meetings covering capital plans and two public hearings devoted to relevant issues.

The FHLBank of Seattle was the first FHLBank to win approval of its proposed capital plan, coming at a March 13 Finance Board meeting. Seattle is also the only FHLBank so far to implement its plan, which followed the Finance Board approval of its internal market risk model and risk assessment procedures and controls, a step that all other FHLBanks must also take.

Completion of the plans marks a watershed for both the Finance Board and the Federal Home Loan Bank System, Korsmo said.

"Seventy years after the system was established, a fundamental change has taken place," he said. "No longer is the board a senior partner in operation of Home Loan Banks."

(See **PLANS**, page 2)

Finance Board Chairman Embraces Call For Full GSE Disclosure

(Federal Housing Finance Board Chairman John T. Korsmo sent the following letter on July 16 to Treasury Undersecretary for Domestic Finance Peter R. Fisher endorsing full disclosure for government-sponsored enterprises.)

Dear Under Secretary Fisher:

Thank you for your letter of July 15 asking the Federal Housing Finance Board to work with the Federal Home Loan Banks and the Securities and Exchange Commission (SEC) to require disclosures under the Securities Exchange Act of 1934, as interpreted and applied by the SEC.

As we have discussed, I fully support this goal and applaud you and the Administration for pursuing additional disclosure requirements for government-sponsored enterprises. While the Federal Home Loan Bank System already meets many SEC requirements, I want to explore ways to enhance disclosure. Each Bank is privately owned, but the value of each franchise is its status and privilege as a publicly endowed enterprise, and the public is therefore entitled to the fullest range of information possible about the System

(See **LETTER**, page 2)

(PLANS, from page 1)

“The Finance Board, representing the public interest, is now the arms-length regulator for the safety and soundness of the FHLBank System. Today’s action draws clearly the bright red line I speak about often – the bright red line of separation between the board and the FHLBank System it regulates.”

The Chairman observed that the new structures also placed additional responsibilities on the Finance Board as a safety and soundness regulator.

“Once the risk-based capital structures are implemented, the FHLBanks turn to doing what they do: Serving their

member institutions, carrying out their business plans, working together as a cooperative system, and dealing with an ever-changing competitive environment. This environment may well call for new business activities – new to the FHLBanks, and new to the Finance Board.

“So the Finance Board must become an even more attentive regulator. The agency must be certain to maintain the resources, staff, and regulatory tools to carry out its safety and soundness responsibilities.”

The Atlanta FHLBank won approval of its new capital structure on April 10; and Boston and Pittsburgh were approved May 8. On June 12, the capital plans of the Cincinnati, Dallas and San Francisco FHLBanks were approved with unanimous votes, while the Chicago FHLBank’s plan won approval on a 4-1 vote, with Director Franz Leichter casting the lone negative vote.

On July 10, the Finance Board approved the capital structure plans of the FHLBanks of Des Moines, Indianapolis, and Topeka. **BB**

(LETTER from page 1)

and its operations.

As Finance Board chairman, I have initiated discussions with the SEC to move toward a disclosure regime consistent with the cooperative structure of the System and at least as comprehensive as the agreement announced last Friday among Treasury, the SEC, and the other two housing government-sponsored enterprises. A preliminary meeting with senior staff at the SEC was held this morning.

I look forward to a cooperative, mutual effort toward achieving these important regulatory goals. Again, thank you for your work to expand transparency for government-sponsored enterprises and your interest in sound regulation of the Federal Home Loan Bank System.

Sincerely, John T. Korsmo, Chairman

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Second in FHFB History

Cleveland Hosts Special Finance Board Field Hearing

For only the second time in its history, the Federal Housing Finance Board conducted a field hearing outside of Washington, D.C., traveling to Cleveland to take testimony on the capital plans proposed by the Federal Home Loan Banks of Cincinnati and Chicago.

The full, five-member board attended the hearing on June 5 at the Airport Marriott Hotel in Cleveland.

“It is unusual for the Finance Board to hold a field hearing outside of Washington, but the issues before us are both complex and critical to the operations of the FHLBanks in question,” Finance Board Chairman John T. Korsmo said in his opening statement. “By conducting a field hearing, we are reaffirming the critical importance of the capital plan process, and particularly the two plans before us today.”

The hearing followed a broader, April 11 session in Washington on the general principles about capital plans established by Gramm-Leach-Bliley and the Finance Board’s regulations, including

the views FHLBanks had of those principles.

Presidents Alex Pollock of the Chicago FHLBank and Charles Thiemann of the Cincinnati FHLBank spoke at that first public meeting.

The Cleveland hearing featured testimony from directors of the two FHLBanks. For Cincinnati, chairman Paul Tipps and vice chairman Buckner Woodford spoke, as well as directors Stephen D. Hailer and Charles J. “Bud” Koch.

Testifying for Chicago were chairman Douglas J. Timmerman and James K. Caldwell.

Finance Board Chairman Korsmo said the field hearing provided an opportunity for Finance Board members to focus their attention on the two proposed capital plans, because they differed from the previous four approved by the board.

“In Cincinnati’s case, the FHLBank is proposing a different approach to excess stock than other proposals,” he said. “Its members have accumulated a very

large pool of excess stock which they ask be allowed to function as a cooperative pool available to all members.”

The FHLBank of Chicago proposed a plan that largely substitutes voluntary purchases of stock for the mandatory assessments on assets or activities used by other FHLBanks. Chicago directors said the capital plan would also permit the sustained health and growth of the FHLBank’s Mortgage Purchase Finance Program.

The Cleveland site was chosen for hearing because of its proximity to the two FHLBanks and travel convenience.

The only other time the Finance Board held a field hearing outside of the nation’s capital was on May 21, 1991, in Indianapolis, the hometown of Chairman Daniel F. Evans, Jr.

The hearing served as a general overview of the operations of the Finance Board and the FHLBank System, created by the 1989 Gramm-Leach-Bliley Act, and focused on the Affordable Housing Program. **BB**

FHLBank System Celebrates 70th Anniversary

The Federal Housing Finance Board marked the 70th anniversary of the Federal Home Loan Bank System on July 22 with a staff reception at the agency's headquarters.

President Herbert H. Hoover signed the Federal Home Bank Act in 1932 to create a reserve banking system for thrift institutions and the housing finance industry hit hard by the first years of the Great Depression. Stagnation in residential construction contributed to the economic hardships.

Chairman John T. Korsmo read excerpts from the President's signing state-

ment at the reception.

"The purpose of the system is both to meet the present emergency and to build up home ownership on more favorable terms than exist today," President Hoover said.

"The immediate credit situation has for the time being in many parts of the country restricted the activities of building and loan associations for home purposes, in such fashion that they are not only unable to extend credit for the acquirement of new homes but in thousands of instances they have been unable to re-

new existing mortgages with resultant foreclosures and great hardships."

Korsmo noted that 30-year mortgages were not yet in common existence, and thrifts often lacked the immediate capital to renew mortgages, hence the effort to bring more liquidity into the mortgage markets.

On August 9, 1932, President Hoover, through recess appointment, named the first directors to Federal Home Loan Bank Board. Former Republican Congressman Franklin W. Fort of East Orange, N.J. became chairman. **BB**



Finance Board Chairman John T. Korsmo signs the new charter for the FHLBank of New York to replace the original charter lost September 11 in the destruction of the FHLBank's headquarters adjacent to the World Trade Center. The signing was part of ceremonies marking the 70th anniversary of the Federal Home Loan Bank System, and acceptance by the Finance Board of the FHLBank's proposed capital structure plan. Flanking Chairman Korsmo are Atwood "Woody" Collins III, chairman of the board of the FHLBank (left) and Alfred A. DelliBovi, the FHLBank's president and CEO. Standing (l-r) are Finance Board Directors Franz F. Leichter, John C. Weicher, Allan I. Mendelowitz, and J. Timothy O'Neill.

Finance Board Taps Two From FDIC To Strengthen Supervisory Role

With two new employees at the top of the Office of Supervision, the Federal Housing Finance Board has moved to strengthen its principal responsibility, ensuring the safety and soundness of the Federal Home Loan Bank System.

Finance Board Chairman John T. Korsmo recently announced the appointment of Stephen M. Cross to be the new director of the Office of Supervision, followed quickly by the naming of Christie Sciacca to be the deputy director.

"Since becoming chairman, I have focused on reinforcing the fundamental reason the Finance Board exists – to be a premier safety and soundness regulator of these important financial institutions, the 12 Federal Home Loan Banks," Korsmo said.

"Adding the experience, leadership and management skills of Stephen Cross and Christie Sciacca to the outstanding staff we already have on board, I am confident that the Finance Board is well-equipped to carry out its regulatory duties," he added.

The Finance Board's statutory mandate requires annual examinations and reports of condition of the FHLBanks. By regulation, the Office of Supervision is responsible for conducting examinations of the FHLBanks as well as the Office of Finance – ensuring that they are operating in a financially safe and sound manner.

The Office of Supervision, with a staff of about 20, also examines the FHLBanks to see if they are carrying out

their housing finance and community development missions.

Cross has been director of the Division of Compliance and Consumer affairs at the Federal Deposit Insurance Corporation since June 1999. At the FDIC, Cross supervised a staff of approximately 550 employees, including compliance examiners, complaint specialists, community affairs officers and policy analysts. He previously worked at the Office of the Comptroller of Currency as a deputy comptroller.

The highly regarded executive recruitment firm, Korn/Ferry International, conducted the search that resulting in Cross's selection.

"This comprehensive, professionally conducted search was a valuable means of getting the best qualified candidate for director, and I am extremely satisfied with the outcome," Chairman Korsmo said.

Upon his hiring as director of the Office of Supervision, Cross identified Sciacca as the leading candidate for the deputy's position, after having worked with him on numerous issues at the FDIC.

"Christie Sciacca is a wonderful combination of a thoughtful, intelligent supervisor who loves to sift through policy issues, and someone who has experience in rolling up his sleeves in conducting examinations," Cross said.

Sciacca also came from the FDIC, where he was an associate director in the Division of Supervision. He started his career at the FDIC as an examiner in 1973. His most recent tenure at FDIC began in September 1996, and he has served in a number of leadership positions in supervision.

From 1986 to 1996, Sciacca was a founding partner and managing director with The Secura Group, a Virginia-based financial consulting firm.

Finance Board Chairman Korsmo said he would continue to focus his attention on the Office of Supervision with an eye toward providing all the resources necessary to support examinations and other functions.

Finance Board Stresses Governance for FHLBank Directors

The Federal Housing Finance Board is preparing a major conference on board governance to be held in Washington this November for all public interest directors and elected directors of the 12 Federal Home Loan Banks.

The conference will build on the successful two-day orientation session for newly appointed public interest directors held May 13-14. The training session provided an in-depth overview of directors' responsibilities as well as broader board governance issues. FHFB Chairman John T. Korsmo told the directors that the conference was the most important event for the Finance Board since President Bush named him chairman in December 2001.

In his remarks, Korsmo also cited the regulations that outline the role and responsibilities for FHLBank directors, including the passage: "The ultimate responsibility of each FHLBank's board of directors for that FHLBank's management is non-delegable."

"In other words, you bear ultimate responsibility for the operation of the FHLBank," he said. "You cannot hand it

off. Those of you who are public interest directors were selected because the Finance Board regarded you as qualified and capable of bearing that ultimate responsibility."

Housing and Urban Development Secretary Mel Martinez gave the luncheon speech on May 14, highlighting the Administration's initiatives to promote housing and homeownership.

Among other speakers were Mark W. Olson, a governor with the Federal Reserve Board; Rep. Paul Kanjorski, (D-PA); and Steve Bartlett, a former Texas congressman who now heads the Financial Services Roundtable.

There are a total of 81 public interest directors on the boards of the Federal Home Loan Banks, with each FHLBank having a minimum of six. Two public interest directors at each FHLBank are designated as Community Interest Directors, because of a history of involvement in their communities.

In March, the Finance Board voted to approve 36 new directors. Their biographies are available at www.fhfb.gov/PressRoom/PRO2-8.htm

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Finance Board Proposes Initiative To Increase Homeownership Opportunities

Marking the occasion of National Homeownership Month, the Federal Housing Finance Board approved on June 12 a proposed rule to help more American families become homeowners by increasing funds for homeownership set-asides in the Affordable Housing Program (AHP).

The proposal would enable a Federal Home Loan Bank to allocate annually the greater of \$4.5 million or 35 percent of its annual AHP contribution for its set-aside program. The increased funding authority will also help the FHLBanks combine the AHP subsidy with HUD homeownership initiatives to benefit first-time homebuyers.

“President Bush and HUD Secretary Martinez are committed to increasing the homeownership rate, especially for groups that lag behind, including minority and immigrant households, and that’s precisely who would benefit from this proposal,” said Finance Board Chairman John T. Korsmo. “The set-aside programs in the AHP are designed to help low and moderate income families buy a home by providing downpayment and closing assistance, which they can complement with aid from other federal programs.”

Currently, the FHLBanks are authorized by the Finance Board’s regulations to allocate each year the greater of \$3 million or 25 percent of their AHP contribution for homeownership set-aside programs.

The proposed rule would allow each FHLBank to set aside an additional amount of up to the greater of \$1.5 million or 10 percent of its annual AHP amount, specifically for first-time homebuyers. This increased funding authority would enable the FHLBanks to provide up to an additional \$24 million this year. With grants to families ranging from \$5,000 to \$10,000, this initiative could provide assistance to 2,400 to 4,800 additional households.

HUD programs that can be used in tandem with the AHP set-aside include the Self-Help Homeownership Opportu-

nity Program (SHOP), Section 8 Homeownership Program vouchers, and the HOME American Dream Downpayment Fund. Also, FHLBanks can use all or part of their set-aside funds to supplement the savings of households that participate in the Family Self-Sufficiency (FSS) and Individual Development Account (IDA) savings programs.

HUD Secretary Mel Martinez, in a recent speech to FHLBank directors, noted: “The fact that we have a homeownership rate today of nearly 68 percent speaks to the success of the FHLBanks. However, minorities are not sharing equally in the housing boom. Roughly 47 percent of Hispanics and 48 percent of

African-Americans were homeowners in 2000, well below the U.S. average. We obviously have a long way to go. But because the President and I believe so firmly in the transforming power of homeownership, we are committed to closing the gap.”

The AHP provides direct subsidies or loans at subsidized rates to FHLBank System members to finance the purchase, construction, or rehabilitation of affordable housing units. The FHLBank System contributes the greater of 10 percent of net earnings or \$100 million per year to the program. The FHLBanks’ total AHP contribution for 2002 is \$240 million. **BB**

Finance Board Study

Staffing, Salaries, Structure Under Review

In a move to strengthen the operations and efficiency of Federal Housing Finance Board operations, Chairman John T. Korsmo has launched an agency-wide management review.

The initiative consists of a thorough study of the agency’s supervisory functions, its compensation structure, and its overhead.

“As a government sponsored enterprise, the Federal Housing Finance Board has an obligation to the taxpaying public to be efficient and well-managed,” Chairman Korsmo said. “I want to identify ways to strengthen our operations to make certain we carry out our regulatory duties in the most responsible and cost-effective way possible.”

The Chairman called on Stephen M. Cross, the new director of the Office of Supervision, and his deputy, Christie Sciacca, to take a fresh look at the agency’s supervisory functions and their relationship to the other FHFB offices. Korsmo also asked the newly appointed managers to determine the proper level of staffing and available resources to carry

out the office’s safety and soundness responsibilities.

In addition, the FHFB has contracted with the Hay Group to conduct a compensation and benefits study for the entire agency. The internationally recognized compensation-consulting firm will compare FHFB pay and benefit levels to those of other financial regulators, such as the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Office of Federal Housing Enterprise Oversight.

Director of Resource Management Judith L. Hofmann is leading the review of agency overhead, which has already begun with her office and the Office of Communications.

“After several years of significant change at the Finance Board, I thought it was time to make sure the agency is getting the best out of its personnel, organizational structure and management policies,” Korsmo said. “A full-scale management review will help us ensure that we are getting the best out of our employees.” **BB**

President Bush Nominates New Finance Board Member

President George W. Bush nominated Diana E. Furchtgott-Roth on May 24 to be a director of the Federal Housing Finance Board for the remainder of a seven-year term expiring February 27, 2004.

Ms. Furchtgott-Roth is chief of staff of the President Bush's Council of Economic Advisers, a position she has held

since March 2001. She organizes production of the Economic Report of the President and coordinates the council's interaction with other executive branch agencies and Congress.

Prior to joining the Bush Administration, Ms. Furchtgott-Roth was a resident fellow at the American Enterprise Insti-

tute. From 1991 to 1993, Ms. Furchtgott-Roth served in the White House under President George H.W. Bush as deputy executive secretary of the Domestic Policy Council and associate director in the Office of Policy Planning. From 1987 to 1991 she was an economist at the American Petroleum Institute, where she authored papers on energy and taxation. She served on the staff of President Ronald Reagan's Council of Economic Advisers from 1986 to 1987.

Ms. Furchtgott-Roth received a B.A. in economics from Swarthmore College and an M.Phil. in economics from Oxford University. **BB**

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Items of interest recently added to the Finance Board web site include:

1. Several speeches by Finance Board Chairman John T. Korsmo. The speeches can be found at www.fhfb.gov/pressroom/pressroom.speech. Topics and dates of the speeches are:

- comments upon granting a new charter to the FHLBank of New York, July 18;
- remarks on the 70th anniversary of the FHLBank System, July 18;
- opening and closing remarks for July 10 board meeting;
- remarks from June 12 board meeting;
- remarks at the North Dakota and South Dakota Bankers' Convention, June 10.
- opening remarks at the Capital Plan Hearing in Cleveland, June 5;
- remarks at the Economic Development Forum, June 4;
- address to the FHLBanks' Public Interest Directors, May 15;
- address to the Independent Community Bankers Association, May 15; and
- remarks on the Capital Plans of the FHLBanks of Pittsburgh and Boston, May 8;

2. In conjunction with the Economic Development Forum on June 4 a report was issued outlining the various issues discussed. The report is at www.fhfb.gov/PressRoom/Reports/060402EcoDev.pdf

3. Chairman Korsmo appointments of a new director (www.fhfb.gov/PressRoom/press/PR02-17.htm) and deputy director of supervision (www.fhfb.gov/PressRoom/press/PR02-20.htm)

4. Remarks by HUD Secretary Mel Martinez at the FHLBank's Public Interest Directors' conference on May 14 (www.fhfb.gov/PressRoom/speeches/Martinez051402.htm). **BB**

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Resources

"Innovative Design for Nontraditional Households in Rural Areas", a publication of the Housing Assistance Council, illustrates how some rural housing developers are devising creative, affordable housing solutions for nontraditional households. The report is available free at www.ruralhome.org.

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"Meeting the Housing Needs of People in Poverty," a new publication from the National Association of Community Action Agencies, details the wide array of housing services provided by community action agencies. To order, visit www.nacaa.org or call 202-265-7546.

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"Examining Barriers to the Rehabilitation of Affordable Housing" is available from the HUD User web site at www.huduser.org.

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"Homeownership in the Immigrant Population" is a working paper by Professor George Borjas of the Kennedy School at Harvard University is being made available by the Research Institute for Housing America. The work is available at www.housingamerica.org/docs/wp02_01.pdf **BB**