



# NEWS

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## **FHFB CHAIRMAN KORSMO ASKS EACH FEDERAL HOME LOAN BANK TO MEET WITH SEC**

*The following op-ed column appeared in today's American Banker.*

By John T. Korsmo

It has been a long time coming, but the moment has now arrived for the 12 Federal Home Loan Banks and the Securities and Exchange Commission to get to know one another.

When Congress chartered the Bank System in 1932 and the SEC in 1933, there was little reason for them to meet. The U.S. Treasury held the Banks' stock and tightly controlled their bond offerings.

But times have changed, and so have the Federal Home Loan Banks. Today, the FHLBanks have more than 8,000 shareholder institutions, \$37.6 billion in capital, \$495 billion in loans outstanding to members, \$63 billion in unsecured credit extended to domestic and foreign banks, mortgage portfolios of \$75 billion, and \$688 billion in debt securities held by public investors at the end March 2003.

I have asked the Banks to meet with the SEC staff to address whatever questions or concerns both sides might have about the FHLBanks joining Fannie Mae and Freddie Mac as voluntary registrants under the Securities Exchange Act of 1934. So far, two Banks have done so, and their executives told me the sessions were very valuable.

The remaining Banks should now follow suit. By sitting down with the SEC staff to discuss voluntary registration, the Banks will serve their member institutions as well as taxpayers and the capital markets. An open discussion will address questions and misconceptions, while providing the SEC with a better understanding of the particular characteristics of the Federal Home Loan Bank System.

The job of the Federal Home Loan Banks is to provide low-cost liquidity to depository institutions comprising part of this nation's affordable home mortgage marketplace. The Banks leverage their status as government sponsored enterprises - including a market perception that taxpayers stand behind their debt in case of a default - to borrow money in public capital markets at rates not much higher than paid on US Treasury obligations. Last year, the total volume of such activity, including overnight refinancing, was \$4.6 trillion.

Fortunately, the Banks are well capitalized and hold superior collateral on their loans to member institutions. There has never been a default on an FHLBank note or bond, and none is anticipated.

But together with Fannie Mae and Freddie Mac, the 12 FHLBanks form the foundation of the housing and mortgage finance sectors, powerful drivers of our nation's economy. As such, they are obligated by self-interest and duty to the public to contribute to the resilient, confident functioning of the marketplace.

Resilient, confident capital markets are the rightful concern of SEC regulation and Treasury Department policy-making. The SEC and President Bush's Administration believe that the Federal Home Loan Banks should join the other two housing GSEs as voluntary '34 Act registrants to ensure continued stability, resiliency, and growth in the mortgage finance and housing sectors.

The Federal Housing Finance Board is the mission and safety and soundness regulator of the FHLBanks. Except for a few wary FHLBanks, nobody seriously suggests that the Finance Board invite itself into the arena of capital markets regulation. As the agency's chairman, I support voluntary SEC registration and will ensure that it not be allowed to dilute safety and soundness oversight.

Through voluntary '34 Act registration, Fannie Mae now meets the minimum disclosure standards for public issuers, and Freddie Mac is expected to comply shortly.

The willing adherence by the other two housing GSEs to the basic requirements for issuers in public capital markets, including submitting to SEC compliance and enforcement authority, set the terms for this debate. In short, Fannie Mae and Freddie Mac now play by the rules for public securities issuers. So why not the FHLBanks?

In July of last year, an expert hired by the FHLBanks warned of the consequences of differing disclosure regimes for the three housing GSEs: "... the capital markets will perceive a prejudicial difference in government sponsored status of the FHLBank System, which will likely translate into higher funding costs and a significant competitive inequality."

It is troubling that so many FHLBanks nonetheless resist engaging in serious discussions with the SEC about how Banks can voluntarily adopt the '34 Act standards accepted by their peers.

Serious discussions will inform the FHLBanks that the '34 Act mandates disclosure practices and standards, but not business models or structures. The Banks will also better understand that the '34 Act concerns periodic financial disclosures about issuers of public securities and does not reach the offering of stock to members or bonds to the public. Importantly, the SEC will explain to the Banks that the SEC possesses considerable latitude to adapt '34 Act registration to suit the widely varying circumstances of the many thousands of registered issuers.

Before any FHLBank commits itself to favoring a disclosure program that differs from that adopted by all of its GSE and major banking competitors, it must consider carefully whether the alternative is justified by real - not supposed - obstacles to SEC registration. They must also determine whether any alternative will enhance market confidence in the transparency and strength of the housing GSEs.

It is time that all FHLBanks accept that the size, sophistication, and role of their publicly endowed business monopolies require them to take up responsibilities not contemplated in 1932.

We can begin by introducing the 12 FHLBanks to the SEC.

*(John T. Korsmo is Chairman of the Federal Housing Finance Board.)*

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