

FEDERAL HOUSING FINANCE BOARD

OPEN MEETING

Wednesday, January 29, 2003

Washington, D.C.

The meeting convened at 10:02 a.m.,
at 1777 F Street, N.W., Second Floor Board Room,
Washington, D.C.

MEMBERS PRESENT:

JOHN T. KORSMO, Chairman

J. TIMOTHY O'NEILL, Director

FRANZ S. LEICHTER, Director

JOHN C. WEICHER, Director

ALLAN I. MENDELOWITZ, Director

PARTICIPATING STAFF:

ELAINE I. BAKER, SECRETARY TO THE BOARD

ARNOLD INTRATER, GENERAL COUNSEL

STEPHEN M. CROSS

MELISSA ALLEN

SYLVIA MARTINEZ

CHARLES E. MCLEAN

MICHAEL VALLELY

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P R O C E E D I N G S

CHAIRMAN KORSMO: The appointed hour has arrived. And as Dr. Weicher has pointed out, he actually beat me to the room today. So we better get--

[Applause.]

CHAIRMAN KORSMO: Thank you. Round of applause. So I'll call this meeting of the Federal Housing Finance Board to order.

The first item on our agenda is a resolution of rescission of Finance Board resolutions governing the Federal Home Loan Bank of Atlanta's Affordable Multifamily Participation Program.

I understand, Sylvia, you will be the presenter on this item. So, Sylvia Martinez, please.

MS. MARTINEZ: Mr. Chairman, Directors, good morning.

In 1996, the Finance Board authorized the Federal Home Loan Bank of Atlanta to operate the Affordable Multifamily Participation Program, or AMPP. Under the terms of the program, the Bank was permitted to

purchase up to \$50 million in loan participation interests derived from multifamily loans.

These participation interests were backed by loans originated by the Bank's member institutions as participants in an affordable housing lending consortium. The program was originally authorized as a pilot program through Finance Board Resolution 96-73. The first consortium to participate was the Community Investment Corporation of North Carolina.

In 1999, in Resolution 99-06, the Finance Board authorized the Bank to purchase loans from additional consortia. This action enabled the Tampa Bay Community Reinvestment Corporation to also participate in the AMPP, as the program is known.

Resolution 96-73 and Resolution 99-06 that authorized the programs have since been superseded by Finance Board regulations governing acquired member assets, core mission assets, targeted investments, and advances.

The Atlanta Bank has requested a regulatory interpretation from the Finance Board to determine whether the resolutions or the regulation have binding

authority. To remove ambiguity, and consistent with good practices under administrative law, the Office of the General Counsel recommends that the two resolutions governing the program be rescinded.

In its five-year operating history, the program has performed well. The Bank has an outstanding balance of approximately \$24.5 million in loans, originated for project's use in low-income housing tax credit. Over 2,000 units of affordable housing have been supported by this program.

The Office of Supervision and the General Counsel's Office of the Finance Board have reviewed the Bank's policies and procedures and have determined that these policies are consistent with applicable Finance Board regulations and safety and soundness requirements. Therefore, the staff recommends that the Board rescind Resolutions 96-73 and 99-06. Thank you.

CHAIRMAN KORSMO: Mr. Vallely, Dr. Cross, Mr. Intrater, anything to add to Ms. Martinez's comments? If not, are there any questions of any members of the staff? Are there any questions of any members of the staff?

[No response.]

CHAIRMAN KORSMO: Seeing none, the Chair would entertain a motion in regard to this agenda item.

DIRECTOR O'NEILL: So moved.

CHAIRMAN KORSMO: Mr. O'Neill has moved rescission of Finance Board Resolutions Numbers 96.73 and 99--or excuse me, "dash," I should say 96-73 and 99-06. Is there any discussion of the motion? Is there any discussion of the motion? Dr. Weicher?

DIRECTOR WEICHER: This is really more in the nature of a question. I wasn't thinking quite that fast. How many other Banks have programs like this?

MS. MARTINEZ: This is a unique program in the Bank System.

DIRECTOR WEICHER: It is.

MS. MARTINEZ: Yes.

DIRECTOR WEICHER: Anyone--anything at all close?

MS. MARTINEZ: Well, there have been some multifamily purchase programs. The Federal Home Loan Bank of Boston had a program where it was going to purchase FHA loans but has since discontinued it. And

there have been some initiatives, but certainly not one that has been as vigorous as this program.

DIRECTOR WEICHER: Thank you.

CHAIRMAN KORSMO: But such programs would now be permitted under our new reg?

MS. MARTINEZ: Yes.

CHAIRMAN KORSMO: Is there any other discussion of the motion?

[No response.]

CHAIRMAN KORSMO: Seeing none, Madam Secretary, you will please call the roll on the question of rescission of the two resolutions.

MS. BAKER: On the matter before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

The motion is carried. The resolution rescinding Finance Board Resolutions Numbers 96-73 and 99-06 is approved.

Thank you, Sylvia.

The second item on our agenda is consideration of approval of a Community Investment Cash Advance-- excuse me. What we need to do under the Community Investment Cash Advance Program approve Claritas, Inc. as the data source for determining area median incomes.

Charles McLean and Melissa Allen, I see, are stepping to the table. Melissa or Charles, who's addressing this one? Charles?

MR. MCLEAN: I will, Mr. Chairman.

CHAIRMAN KORSMO: You're up.

MR. MCLEAN: Good morning. Mr. Chairman and Directors, the staff is presenting the Federal Home Loan Bank of Atlanta's request for approval to use Claritas as a data source for Community Investment Cash Advance (CICA) programs.

The 1998 CICA regulation requires the Federal Home Loan Banks to establish area median income for the

purpose of determining the income eligibility of targeted beneficiaries. Targeted beneficiaries may be geographic beneficiaries, neighborhoods with targeted income levels, or individual beneficiaries whose incomes must be within targeted income levels or for which jobs are created or retained at salaries within targeted income levels.

The CICA regulation specifies what sources of area median income data a Bank may use. In 2001, the Finance Board amended the CICA regulation to provide greater flexibility to the Federal Home Loan Banks by permitting the Banks to determine area median income by using data obtained from a private source with Finance Board approval.

By allowing the use of data sources that annually update area median income data, the Finance Board intended to enhance the Bank's capacity to implement the income targeting provisions of the CICA regulation in meeting local economic development needs.

Claritas is one of the possible private sources of updated data on local AMI that the Finance Board anticipated could be used by the Banks in determining area median incomes. Claritas is a nationally recognized

source for market data. The Atlanta Bank has used Claritas since 1990 as a source of data for a number of purposes, including providing geocoding and market profile services to the Bank's members for use in HMDA and CRA compliance.

The OTS, the OCC, and the FDIC accept CRA information from financial institutions using the geographic income data from Claritas. In October of 2002, the Atlanta Bank requested Finance Board approval to use Claritas as a source of area median income data in determining area median incomes for CICA programs.

The Board's approval of the Atlanta Bank's request would also permit any other Bank to use Claritas data in CICA programs. The staff will answer any questions you may have.

CHAIRMAN KORSMO: Thank you, Mr. McLean. Are there any questions of either Charles or Melissa? Dr. Weicher?

DIRECTOR WEICHER: Yes, as some staff and perhaps members of the Board know, we at HUD prepare annual income estimates for each market in the United States as part of the process of establishing the fair

market rents, which set maximums for the amount of subsidy we will pay for low-income housing assistance in every market area in the country, every metropolitan area or every non-metropolitan county.

And we have been surprised a little bit by this proposal since there is available data from us and trying to see what the distinction was that suggested that, and it's a free country, but I'm sort of surprised that they would not choose to use something which is free from us.

And if I understand it correctly, the distinction seems to be that they go down to the census tract level--

MR. MCLEAN: Yes.

DIRECTOR WEICHER: --which we don't try to do at all and which is difficult to do since, you know, no one really does a survey of the census tract level to recalculate incomes in the tract between the cennial--the decennial censuses.

Do we have a sense of how important it is that they go to the census tract level?

MR. MCLEAN: I think it's vitally important. I believe that our CIP standard, based on the statute,

looks at neighborhood data, which is more closely linked to the census data and census levels.

DIRECTOR WEICHER: Do we have any verification or validation of whether or not they--how close they come on their census tract? They can't be doing separate surveys. They don't claim to be doing separate re-surveys on the tract level. They're doing some estimation based on metropolitan and city data. I'm just wondering if we have a feel for what we're getting--what they're getting from them?

MR. MCLEAN: Well, I believe that Claritas will essentially provide whatever their client really asks for, including doing door-to-door surveys if required and necessary, obviously, since it's a private data source.

DIRECTOR WEICHER: Do we know whether they're doing--

MR. MCLEAN: No, I do not know in particular.

DIRECTOR WEICHER: As far as I know, they aren't. I mean, from asking my staff to check into this. And as far as we know, they are not. Okay.

When--did they just start using this a year ago?

MR. MCLEAN: No, they have been using this since 1990.

DIRECTOR WEICHER: Okay.

MR. MCLEAN: The Atlanta Bank has and other Federal Home Loan Banks have also used Claritas.

DIRECTOR WEICHER: Okay. I missed that the last time around. Okay. Thank you. Thanks.

DIRECTOR O'NEILL: Since that was raised, they were using Claritas, and then they stopped using Claritas maybe because under the regs they couldn't use Claritas. So this is putting using Claritas back in force. How long did they not use Claritas because our regulations forbade them from doing that?

MR. MCLEAN: I don't know if they ever really stopped using Claritas.

DIRECTOR O'NEILL: Mm-hmm. Is it true that something in our regulations said that they couldn't use Claritas?

MR. MCLEAN: I think that it could be inferred from our regulation that they shouldn't be using Claritas.

CHAIRMAN KORSMO: A delicate answer.

[Laughter.]

DR. CROSS: The regulation says that they should use certain approved data sources, including the data from HUD, on area median income. And if they're using Claritas to confirm what they are getting from HUD or to pick parts of a larger area that might be the focus of their work, I don't see anything in the regulation that forbids that because their choice of area would be based on the HUD median income.

So I would not use the word that our regulations "forbade" them from using Claritas. They do not permit them to rely solely and exclusively on Claritas unless we provide them approval as is before the Board.

CHAIRMAN KORSMO: Mr. Intrater?

MR. INTRATER: Which is why they submitted the proposal.

CHAIRMAN KORSMO: Any other questions of members of the staff? Any other questions?

[No response.]

CHAIRMAN KORSMO: Hearing none, the Chair would entertain a motion to approve Claritas as a data source

for determining area median incomes under the Federal Home Loan Banks CICA programs for the Bank of Atlanta.

DIRECTOR WEICHER: So moved.

CHAIRMAN KORSMO: You've heard the motion. Is there any discussion? I heard a deep breath from Dr. Mendelowitz. Is that it?

[Laughter.]

DIRECTOR MENDELOWITZ: So registered. I'm just a little concerned that no one think that we're derelict in our due diligence responsibilities because there isn't any discussion.

We've all considered this. We've analyzed it. It's weighed heavily on us, and we--

DIRECTOR WEICHER: Well, it weighs on me anyway.

[Laughter.]

CHAIRMAN KORSMO: The reality is we did have a briefing on this issue. Directors have had an opportunity to reflect and--

DIRECTOR MENDELOWITZ: Thank you, Mr. Chairman.

CHAIRMAN KORSMO: --that reflection is duly noted--

DIRECTOR MENDELOWITZ: Thank you, Mr. Chairman.

CHAIRMAN KORSMO: --for the record. Is there any other discussion of the motion?

[No response.]

CHAIRMAN KORSMO: Hearing none, the Secretary will please call the roll.

MS. BAKER: On the matter before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

The motion is carried. The resolution approving Claritas, Inc. as the data source for determining area median incomes under the Federal Home Loan Bank's Community Investment Cash Advance Programs is approved.

We move to item number three on the agenda. The Board will now consider the appointment of public interest directors to the 12 Federal Home Loan Banks. Before we enter on this discussion, permit me, please, to provide a little background for the record.

First of all, 28 board positions became open as of January 1, 2003, and the Board's votes today will fill those vacancies all for three-year terms. First of all, of course, we thank the 28 board directors whose terms have expired. They have served well. They have served with distinction in certainly a very responsible position.

And let me be the first on the record to state my thanks, and I think the thanks of the Board and certainly the Banks, for their distinguished service.

The Finance Board received a total of 136 nominations for the 28 positions, including self-nominations and 12 requests for reappointments. Over the past several months, I've met with several associations and public interest groups to hear their comments about public interest directors and to solicit the names of candidates.

They've provided a variety of perspectives-- valuable perspectives, I would say, about what they would like to see in the public interest director. And I want to assure them all that I gave serious consideration to their input when selecting candidates for nomination. Of course, I appreciate the interest and energy these groups brought to the process and the support their interest indicates in the Federal Home Loan Bank System.

I also solicited names from my colleagues on the Finance Board. Fellow Board members have heard repeatedly my views that about what I consider to be the essential qualifications for public interest directors. I outlined those qualifications on a candidate-by-candidate basis 10 days ago when I provided the names and biographies of the nominees I intend to propose to my Board colleagues.

For the benefit of the public record, let me restate those basic principles. When reviewing potential appointees, I consider the following criteria, which I will confess I stole fair and square from the Federal Home Loan Bank of Pittsburgh.

I sought directors who demonstrated, one, an understanding of finance. Directors should be financially literate. Directors should know how to read a financial statement and understand financial ratios. Directors should have a working familiarity with basic finance and accounting practices. And of course, that knowledge can come from any number of sources.

Two, political awareness. Directors should possess an awareness of the importance of the political process in and to the Federal Home Loan Bank and the System in its entirety.

Three, experience in board governance. A director needs to be able to monitor corporate management. A director should understand management and best practices in general and, to the extent possible, in the banking industry specifically.

Four--and I think this is an extremely important point--diversity. Directors should represent many different aspects of their communities, bringing different insights to the boards on which they serve. In short, as public interest directors, they should represent the public in its full variety.

Five, a demonstrated interest in the mission of the Federal Home Loan Bank. Directors should have in-depth, industry-specific knowledge of some aspect, if not necessarily all aspects, of the Bank's mission. And of course, among those missions, are housing, community and economic development, and banking.

Six, ability to work with other directors as a board. Directors need to possess skills to interact productively with other board members and be able to motivate high-performing talent. Consistent with our earlier criterion about an understanding of corporate governance, I sought out candidates with demonstrated experience, successful experience in a board environment.

And seven, geographic balance. I don't want to see a regional Bank tilted excessively toward any one region, in part because geography can translate, of course, into particular financial interests. Bank districts, like the Atlanta Bank district, for example, are far-reaching. In the case of Atlanta, ranging from Maryland to Mississippi. Obviously, we want directors who, taken in their entirety, represent the entire region.

And I think there is also another aspect to geographical balance, and that is some assurance that rural interests are represented on the Bank boards. I think all too often in the past we've seen the situation where the major metropolitan areas within a Bank district are represented. But needless to say, given where I'm from, I think it's important that the concerns of rural constituents of the Bank System also be taken into consideration.

The candidates I am proposing today meet all these qualifications, of course. Indeed, they exceed them. They're an outstanding, well-qualified group of people who I'm confident will serve their respective Banks with skill and dedication during their three-year terms as directors.

We've made an extra effort this round to solicit candidates from many, many communities. For the first time, I believe, the Finance Board will consider appointing a Haitian American. We have candidates from the African-American and Hispanic communities as well as an Iraqi-born American citizen. In fact, more than half of the candidates are from minority communities.

Another nine of the candidates are women. Unfortunately, these boards have not reflected appropriately, I think, the opportunity and provided an opportunity for qualified women candidates to participate. And so, I'm very pleased to say that fully one-third of our candidates in this particular instance are women. Taken together, women and minorities are 75 percent of the candidates that I am recommending to the Board today.

Even as I emphasize the ways in which these candidates represent their communities, let me also stress their wide range of professional and personal experience. We have small business owners, legislators, investment bankers, accountants, attorneys, home builders, development experts, people involved in the faith-based community--quite simply, men and women of accomplishment whose experience will inform and benefit the Federal Home Loan Banks.

The resolution we will consider today is identical to the slate circulated to each of the Board members early last week. Full resumes and biographical sketches of the candidates were provided to each

Director, so I trust that we're all familiar with their qualifications.

In a moment, Director O'Neill will offer a motion to adopt the slate. This is the same procedure we used last year, and I'm supporting it again this year.

I did have a communication from a couple of my colleagues on the Board indicating that they do not intend to offer any alternative candidates. If that is the case, with the Board's approval, I think we could consider this motion as a bloc.

Perhaps I should open the floor to a discussion of that point at this point. Is there any objection to voting on the candidates as a bloc? Director O'Neill?

DIRECTOR O'NEILL: This--obviously, this Board, if everybody agrees to the 28, then this would not be for this Board. But it may be that somebody would think that by voting them as a bloc, rather than individually, we were precluding somebody that somebody wanted to have a chance, even though all five of us are the only ones that vote are fine with the slate.

So my motion, as it was last year, was both to nominate the slate, but also to divide the vote among the

28. And it's up to you, Mr. Chairman, whether you want to vote them as a bloc. But I just--we did it last year individually, and it seems like nobody could say that we were doing anything out of the ordinary if we vote on all of them individually. But it's totally up to you.

CHAIRMAN KORSMO: Actually, I would say it's up to you, Director O'Neill. It's your motion to make, and if you choose to make the motion in that form, we can vote on it in that form.

DIRECTOR O'NEILL: All right. Well, thank you, Mr. Chairman.

CHAIRMAN KORSMO: I should mention that after the motion is made, I know there are--probably every Director has some comments to make about the process and the nominees. And so, as soon as the motion is made, as we did last year, I want to open the floor, of course, to discussion and anticipate remarks from our Board colleagues. Director Leichter?

DIRECTOR LEICHTER: I don't want to spend much time on it because my whole idea in voting on these as a bloc was to save time. But I don't think that anybody is being precluded, Director O'Neill, since all of us have

indicated that we're not going to offer any substitute nominations.

So--and it's no secret, but I think that the slate will have affirmative votes of all five Directors. But if you prefer to do--go through this process 28 times, I'll join you.

DIRECTOR MENDELOWITZ: Mr. Chairman?

CHAIRMAN KORSMO: Yes, sir.

DIRECTOR MENDELOWITZ: I don't see any purpose to go through and take 28 seriatim votes. The resolution that's in the Board Book is a bloc resolution. I think it would be consistent with the resolutions in the Board Book, lest anyone think that we haven't done our due diligence.

DIRECTOR O'NEILL: Well, I was concerned about that.

DIRECTOR MENDELOWITZ: I can assure you I personally have spent a lot of time looking at these directors. I can tell you which one's professional training is a registered nurse. I can tell you which one was a P-47 pilot in World War II and shot down over Normandy. I can tell you which one was a staff assistant

to Congressman Ritter. And I'm interested in seeing him because I did a lot of work for Congressman Ritter when I was in the Congress--

[Laughter.]

DIRECTOR MENDELOWITZ: When I was in--I'm sorry, please. When I worked at the GAO. Please. That was just a--

CHAIRMAN KORSMO: Wishful thinking, I know.

DIRECTOR MENDELOWITZ: Not even wishful thinking, trust me.

[Laughter.]

DIRECTOR MENDELOWITZ: So I think we've done our due diligence here with respect to the members, and I don't think anything is served by 28 seriatim votes other than sort of spending a lot of time that's unnecessary.

CHAIRMAN KORSMO: I won't always say this, but I'm at your pleasure on this. So I will certainly abide by the rule of the Board on this. Dr. Weicher?

DIRECTOR WEICHER: I think, given the statements that my colleagues have made, I don't think it's necessary to vote on these individuals. I, too, have done my due diligence. And while I could not name

the people who match the description that Director Mendelowitz just mentioned, I think I remembered seeing them, seeing those qualifications as we went through it.

And there are one or two members on the slate who I have known personally and one who I've worked with very closely and delighted to vote to appoint him to the board of the Federal Home Loan Bank of Atlanta. And I think it's clear we have all done a serious job of reviewing the nominations, and I think we can appropriately vote as a body to approve them.

CHAIRMAN KORSMO: Director O'Neill?

DIRECTOR O'NEILL: Well, Mr. Chairman, maybe it's the Irish in me that I am rather stubborn about this. But we did it last year, individual votes, so I move that we adopt the resolution concerning public interest directors that appears in our Board Book for January 29, 2003, meeting, subject to a separate vote on each of the 28 persons that we are considering approving as public interest directors in the order that they appear in the resolution.

CHAIRMAN KORSMO: Thank you, Director O'Neill.
A motion has been made to adopt the resolution concerning

public interest directors that appears in our January 29, 2003, Board Books. That resolution is now on the floor for our consideration.

I also recognize your request for a separate vote on each individual as a motion divide the question. Under Robert's Rules of Order, which guide the proceedings of this Board, that motion is proper and is not debatable. After we take the vote on that motion, however, then I will recognize any Director who wishes to make any additional statement.

Just to be clear on the parliamentary procedure, we're voting now solely on the motion to divide the question. We're not voting on the resolutions. The vote I am calling for right now is solely on the vote to divide the question so that we will vote on each of the candidates individually.

All in favor of the procedure to vote separately on each individual name in succession will signify by saying "aye" as the Secretary calls your name.

Madam Secretary, please call the roll.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: This is separate votes of each one? No. No.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye.

The motion carries. At this point, the motion is on the floor. We will, as I mentioned, vote on the individual directors' names. Before that, however, are there any Directors who wish to make any statement concerning the appointment of public interest directors? Mr. Leichter?

DIRECTOR LEICHTER: All right. Thank you, Mr. Chairman. I think we do have a slate here of people of some accomplishments, and I want to particularly commend the fact that we achieved much greater diversity with this slate than we've had in the past, and I think that's a significant, positive step.

I think there's one respect, though, in which, unfortunately, this slate does fail the needs of the Federal Home Loan Bank System, and that is that we have absolutely no reappointments on this slate. We are losing some excellent, excellent directors-- extraordinarily competent people who have served on the boards of the various Banks and have provided very significant service.

And by failing to have any reappointment, what we're doing is we're really undermining the governance of the s\System. And I think that's a particularly serious matter. Obviously, governance is a buzz word. We've all become very aware of it. I don't mean to say that the members of this Board or this agency wasn't aware or concerned with governance before. But I think it's become a lot clearer to us the significance and the importance of governance.

And governance certainly requires people who are knowledgeable, who are experienced, and who understand and know the entity to which they're being appointed. Now, I think it's helpful to bring in new people. And as we noted, some of the people on this list

have good financial background, have community background, people that can make a contribution. But it's going to take them at least a year, if not longer, to understand how this System works.

The Banks to which they're being appointed as directors are very sophisticated, complex institutions. They're billion-dollar institutions that engage in very complex financial transactions, and it takes a great deal of time to learn the nature of these transactions, to understand them, and to be able to be a real contributing board member.

So I'm dismayed that we're losing so many experienced board members. And I just want to mention some of them, just to give you an idea of the loss to the System. And by no means are these the only ones, but I thought I would take these as examples.

David Curtis, who was the chairman of the Pittsburgh Bank Board of Directors for many years, played such a significant role in moving that Bank into Affordable Housing Programs.

Paul Tipps, the chairman of the Cincinnati Bank, a very experienced public person who really devoted

himself, to a great extent, to the work of the Bank and played a very, very helpful role and had the support of all of the board members, Republicans and Democrats, on that board.

Derek Park, a very experienced investment banker, served in the New York Bank. Rita Fair, who was the chair of the Atlanta Bank and who, in fact, at one time was the Managing Director of this Board. Karl Pnazek in Chicago, who played a very important role in moving that Bank into a very innovative Affordable Housing Program.

Roberta Achtenberg, a former, I believe, Assistant Secretary of Housing, who also played a very important role in setting up a very well-received Affordable Housing Program in the San Francisco Bank.

Maxine Frank--or I'm sorry. What? Maxine Fitzpatrick. I had a classmate called Maxine Frank. That's why I wrote down that name. But Maxine played such an important role in the Seattle Bank and a very active community person, very knowledgeable on affordable housing.

Steve Studdert of the Seattle Bank, just an outstanding person, really brought a lot of substance to the Bank, to the System. I think it's unfortunate that these people are not being reappointed, and I do feel that the governance of the System is suffering as a consequence.

We do need some continuity on these boards. I appreciate the argument, well, let's bring in new blood. But continuity is also important, and what this slate fails is to have any balance between new blood and continuity. And as a consequence, we're going to have boards of directors of these Banks that are going to be predominantly new directors, both industry and public interest directors.

As an example, Pittsburgh, 60 percent of its boards have joined within the last year. Nine of the 15 directors--that's including the two directors that I assume will be approved today. Atlanta, 61 percent of its board directors have joined within the last year--11 of 18 directors will be new.

Topeka, 60 percent of its board directors have joined within the last year. That's 9 of its 15

directors. Cincinnati, 56 percent of its board directors have joined within the last year. That's 9 of 16 directors. I think this slate, unfortunately, fails to meet the requirements of governance, and that troubles me.

I just want to say that I think we've made some real progress, Mr. Chairman, from last year in the process and having greater involvement of all of the Board members and having a more orderly process. I think, unfortunately, in one respect, though, the process has not improved. This process, over the years--and it's not just under your tenure, but going back some years--has become more and more politicized.

I think it's wonderful that we get recommendations from the Hill and we get recommendations from the White House and a lot of other sources. Unfortunately, some recommendations come here written in stone, and I think that we fail to exercise our independence to the extent that we should. I think if we exercised that independence, then some of the people that I'd mentioned who provided such outstanding service to the Home Loan Bank System and who provide the knowledge

and the experience that's needed for governance would be on this slate.

So I regret that in this respect, the slate fails to meet I think what is important for the System.

CHAIRMAN KORSMO: Thank you, Mr. Leichter. I appreciate your comments. I understand them. To some extent, I share them. As I mentioned earlier, I recognized that the class of directors that will be retiring from the board is a talented, well-qualified group of individuals who've certainly contributed to this process.

I think they're about to be replaced by a group of talented, well-qualified individuals who will contribute to this System. And it is a balancing of a lot of factors, and that's what makes this process difficult, frankly. But I think we also have to look to the wisdom of those who constructed this process, who said that directors will serve for a three-year term.

I think part of what they were thinking in that regard was that there is value, in fact, there is a necessary value to providing an opportunity for as many people as possible to participate in this and other

public service opportunities. I think that is, indeed, the strength of our republic. I think that was what was in the minds of the members of Congress when they established the terms, not just for these boards, but of course for this term for this Board as well.

But I do appreciate your comments. I also appreciate your reflection on the quality of the candidates that are being offered in this case.

Is there any other discussion? Dr. Weicher?

DIRECTOR WEICHER: Just very briefly, to follow up on what you were saying, Mr. Chairman, it is necessarily a balancing. It is hard to increase diversity and, at the same time, retain all the current directors. And I think in terms of balancing between experience and fresh insights, there is a stronger case to be made for new members than with respect to either of you have made.

I served in the mid-1980s on the Federal Savings and Loan Advisory Council to the Federal Home Loan Bank Board in which capacity I met all the other members of that council of which there were, I think, 30 and met a number of directors and Bank presidents and so

forth. And as all of us remember, the '80s were a period during which the System--the savings and loan industry came under increasing stress and the Bank Board as regulator came under increasing stress.

And it seemed to me then that fresh talent on the boards and on the council, more fresh talent would have been useful at that time as the stresses developed than we had. I don't think we are under stress in that sense at all at this point. But I think that that particular episode could have been less serious than it was had there been more effort devoted to bringing new people into the process.

CHAIRMAN KORSMO: Thank you, Dr. Weicher. Are there any other discussion? Dr. Mendelowitz?

DIRECTOR MENDELOWITZ: Mr. Chair, while I carefully perused all of the information in the book of nominees, it's not that extensive. I mean, they're not major biographies on each of the people. And one of the critical criteria for good corporate governance and selection of directors is that it goes to the integrity and the ethics of the nominees who will serve on boards of directors.

This issue is not really addressed in any of the material, and I discussed it with you when we met. And you assured me that you've carefully reviewed in depth the ethics, potential conflicts of interest, and integrity of each of your nominees. And for the record, I would just like to get your assurance that, in fact, you can vouchsafe for the integrity and ethics of each of these nominees.

CHAIRMAN KORSMO: I can, indeed. I think you will note, however, I shouldn't say however. I think you will note in the resolution that three of the nominees that I'm asking be approved today do still have conflicts that need to be resolved before--in their eligibility--

DIRECTOR MENDELOWITZ: Sure.

CHAIRMAN KORSMO: --before we confirm their approval for service on these boards. Yes.

DIRECTOR MENDELOWITZ: Let me clarify a prior conflict of interest with respect to an asset owned by a nominee is not an ethics issue.

CHAIRMAN KORSMO: Okay.

DIRECTOR MENDELOWITZ: That's a change in status. There's nothing wrong with owning stock in a

bank that's a member of a Home Loan Bank if you're not a member of the board of directors.

CHAIRMAN KORSMO: Let me assure you to the extent it's ever possible, we have pursued the background of each of these nominees, and I'm satisfied that they meet the standard you're suggesting.

DIRECTOR MENDELOWITZ: Thank you. Secondly, I do want to comment on the issue of qualifications with respect to expertise and knowledge. Part of the knowledge and expertise that nominees should have will come from professional training, part of it will come from work experience, and part of it will come from prior service on the boards of the Home Loan Banks.

And I also am concerned that there is not the appropriate balance between bringing fresh blood and fresh ideas in while maintaining continuity and expertise from having had the chance to spend a couple, three years really getting to know the Banks and understanding the risks that are on the balance sheet, the programs in detail, and how one provides appropriate oversight.

I think it's virtually impossible to expect that a nominee with one year experience or less on the

board could possibly chair an audit committee or chair an AHP oversight committee. And so, I do have a concern that the quality of corporate governance may suffer from the lack of continuity.

I also have a concern that the lack of continuity may spill over into some very interesting creative initiatives that the Banks have considered adopting and announced that they want to undertake. A number of Banks have considered and approved, either formally or tentatively, very interesting and creative new programs in affordable housing and community development. The first three that come to mind, of course, are the San Francisco Bank, the Chicago Bank, and the Cincinnati Bank.

And the members of the board of directors who championed and whose fresh insights led to the introduction of these proposed programs will no longer serve on the boards of directors of these Banks. And I just wanted to make clear for the record that simply because members of the board of directors who played a critical role in developing and bringing these proposals to the boards will no longer be there, that shouldn't

change the program initiatives and directives of these particular Banks.

I don't think change in a board makeup should affect these kind of creative and laudable initiatives, and I for one, because I like the regional structure of the Banks and believe, like Justice Brandeis believed, that the states were the laboratories of democracy, I believe that the 12 Home Loan Banks are the laboratories for creative program initiatives and developments.

I am looking forward to learning from the implementation of these new initiatives in these Banks, learning about how these programs get executed, and what we as a regulatory board and the other Banks may be able to learn from them.

On another point, Mr. Chairman, I've actually gone back and examined quite closely the current Finance Board regulation with respect to corporate governance and eligibility to serve on a board of directors of a Home Loan Bank. And I have to say, quite honestly, I found the current regulation wanting.

In an earlier era, when the Finance Board was more directly involved in the operations and management

of the Banks, the reg may have been sufficient. But no longer. In the post-Gramm-Leach-Bliley era, we're the arms-length regulator, and the Banks are expected to operate in a safe and sound manner where the primary line of defense is, of course, the oversight provided by the board of governors and the operation of corporate governance.

In the post-Sarbanes-Oxley era, where the importance of corporate governance is recognized, it is incumbent upon us to ensure that we have on the board of directors of each Bank the right mix of skills to ensure that the board can exercise appropriate corporate governance. And in this case and in this--particularly in this area, the concern I have most about is expertise in financial markets, derivatives, and mortgage instruments.

So that, in fact, the board provides genuine substantive oversight of the financial operations of the Bank and has the capability both of asking the right questions and understanding in great depth the answers to the questions that are provided. It requires more than simply being able to read a balance sheet. It requires

more than a two-day tutorial in these particular eras--
these particular areas.

And therefore, as we go forward and we think about the factors we need to consider in future years when it comes to appointing members of the boards of directors, I believe we need to move expeditiously to amend our current regulation with respect to eligibility of directors to provide a basis that will assure that, at a minimum, each Bank has at least one public interest director with the special qualifications that I've been talking about--namely, expertise in financial markets, expertise in derivatives, and expertise in the very complex mortgage instruments that our Banks deal with.

I know that I've discussed this with you, Mr. Chairman, and other colleagues on the Board.

CHAIRMAN KORSMO: Sure.

DIRECTOR MENDELOWITZ: And I look forward to working with you to bring to the Board at the earliest possible date amendment to our current regulations that we do this.

CHAIRMAN KORSMO: I think your suggestion, as you know, is an excellent one. And I would suggest that

what we will do is at the appropriate time, which will be sometime after this meeting, we will have a discussion with the general counsel as to appropriate language that we could consider as a Board in assuring that at least one of the public interest directors who is appointed by this body at any given time, serving at any given time on the boards of each of the Federal Home Loan Banks possesses the skills and background that you suggest.

I would note that the SEC is considering a similar regulation for corporate boards in general. Not suggesting that it has to be any particular qualification in terms of certified public accountant or certified financial planner or any of those sorts of qualifications. But I think the SEC's consideration is directed at providing--at defining a financial expert, however that might be defined.

And I would suggest we could probably look to some of the work they're doing in that regard and along with our judgment as to what some of the unique qualifications might be that would be required to fill that role on the board of a Federal Home Loan Bank, and consider a proposal along those lines and perhaps have

such a proposal available so that we could adopt it in preparation for making these appointments again next year.

DIRECTOR MENDELOWITZ: Thank you for your support on this initiative, Mr. Chairman. I would like to add that I think what the SEC is considering as a general proposition represents, you know, a good sort of parallel to what we should be doing. But when they adopt these kind of standards, they're dealing with a broad range--

CHAIRMAN KORSMO: Exactly.

DIRECTOR MENDELOWITZ: --of balance sheets and risks that, for the most part, are far different than the balance sheets and the risks faced by the Home Loan Bank System. And we have the luxury, I believe, of being more specific when it comes to defining the qualifications and the expertise that we're looking for that goes directly to the types of assets on the--and liabilities on the balance sheet of the Home Loan Banks and goes directly to the specific types of risks that we're facing and the instruments that are on the balance sheets.

CHAIRMAN KORSMO: Finding 12 nonconflicted experts on derivatives may be a challenge. But I think your point is a good one, as I mentioned. I think there are certainly some unique aspects to the governance of a Federal Home Loan Bank that would require a special expertise. I think we have to be very careful in crafting such a regulation that we don't limit us to the point where we can't find those people.

But I think the suggestion, as a general concept, is a good one, and we will move ahead along those lines. Director O'Neill?

DIRECTOR O'NEILL: Since I already have made this process a lot longer than needs to be, I will not make any further remarks.

CHAIRMAN KORSMO: Should I say thank you?

[Laughter.]

DIRECTOR MENDELOWITZ: A point of personal privilege--

CHAIRMAN KORSMO: Yes, sir.

DIRECTOR MENDELOWITZ: Director O'Neill, would you consider rescinding your proposal we vote individually? We're still voting--

CHAIRMAN KORSMO: Is there any other discussion before we commence, before we proceed to a consideration of each of the candidates?

DIRECTOR LEICHTER: I just want to make one point.

CHAIRMAN KORSMO: Director Leichter?

DIRECTOR LEICHTER: One further comment. I just want to point out, Mr. Chairman, as you pointed out, the statute provides a term for the directors, but it's not term-limited.

CHAIRMAN KORSMO: That's correct.

DIRECTOR LEICHTER: It's like the Congress has terms also, but we've never applied a term limit before, and I think I've made my point what the loss is to the system when we do--if we are applying term limits.

I just want to say, since we're going to go through this 28 times and I don't want to make this comment 28 times, I'm going to support these--the only names before us--there are certainly some good qualifications that these nominees have. But I have deep reservations of the overall slate for the reasons I've stated. But I will support these 28 people.

CHAIRMAN KORSMO: We will now proceed to consideration of each individual named in the resolution, separately and in succession. With that, the first name for our consideration. And I should mention all of these are for three-year terms, beginning January 1, 2003, so I won't make that same statement 28 times.

All of the names to be appointed are to serve for three-year terms, beginning January 1, 2003. The question--the first question is on the approval of Thomas R. Eaton to serve as a director of the Federal Home Loan Bank of Boston. The Secretary will please call the roll.

MS. BAKER: On the matter before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Thomas R. Eaton has been appointed to the board of the Federal Home Loan Bank of Boston.

The next name to be considered is that of Ann R. Robinson to be a director of the Federal Home Loan Bank of Boston. The Secretary will please call the roll.

MS. BAKER: On the matter before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: I'm thinking.

CHAIRMAN KORSMO: Oh, come on.

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye.

Ann R. Robinson will be appointed as a director at the Federal Home Loan Bank of Boston.

The next candidate is Ruth R. Griffin to be a director at the Federal Home Loan Bank of Boston. The Secretary will please call the roll.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye.

Ruth R.--L. Griffin, excuse me, is appointed as a director of the Federal Home Loan Bank of Boston.

Harold E. Doley III is nominated to be a director of the Federal Home Loan Bank of New York. The Secretary will please call the roll.

MS. BAKER: Director--

DIRECTOR MENDELOWITZ: For the record--

CHAIRMAN KORSMO: Yes, sir?

DIRECTOR MENDELOWITZ: Mr. Chairman, when you put forward the names of conditional approvals, please--

CHAIRMAN KORSMO: I think we'll do that--my assumption was we will do that when we do the wrap-up motion at the end.

DIRECTOR MENDELOWITZ: Oh, okay. Okay.

CHAIRMAN KORSMO: I thank you for making that point. I was a little concerned about it myself. But that's the way we handled it last year. We'll do that again this year.

DIRECTOR MENDELOWITZ: Okay.

CHAIRMAN KORSMO: Excuse me. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Harold E. Doley III is appointed to the Federal Home Loan Bank of New York.

The next name DeForest B. Soaries Jr. to be a director of the Federal Home Loan Bank of New York. The Secretary will call the roll.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

DeForest B. Soaries, Jr. is appointed.

The next name is the name of William H. Genge to be a director of the Federal Home Loan Bank of Pittsburgh. The Secretary will please call the roll.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

William H. Genge is appointed.

The next name is that of Willard L. Phillips Jr. to be a director of the Federal Home Loan Bank of Pittsburgh. The Secretary will please call the roll.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Phillips is appointed.

The next name is that of Vernadette Ramirez Broyles to serve as a community interest director on the Federal Home Loan Bank of Atlanta. The Secretary will please call the roll.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Ms. Broyles is appointed.

The next name is that of Marc Villain to be a director of the Federal Home Loan Bank of Atlanta. The Secretary will call the roll, please.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Villian is appointed.

The next name is that of Robert L. Woodson Jr.

to be a director of the Federal Home Loan Bank of
Atlanta. The Secretary will please call the roll.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Woodson is appointed.

The next nominee is Donald R. Ball to be a director of the Federal Home Loan Bank of Cincinnati. The Secretary will please call the roll.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Ball is appointed.

The next name is that of Rodney B. Herenton to be a director of the Federal Home Loan Bank of Cincinnati. The Secretary will please call the roll.

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Herenton is appointed.

The next nominee is Senator Shirley Johnson to be a director of the Federal Home Loan Bank of Indianapolis. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Senator Johnson is appointed.

The next nominee is Tarik S. Daoud to be a community interest director--excuse me--on the Federal Home Loan Bank of Indianapolis. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Daoud is appointed.

The next nominee is Gerardo H . Gonzalez to be a community interest director on the Federal Home Loan Bank of Chicago. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Gonzalez is appointed.

The next nominee is William H. Ross to be a director of the Federal Home Loan Bank of Chicago. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Ross is appointed.

The next nominee is Barbara Everist to be a director of the Federal Home Loan Bank of Des Moines. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye.

Ms. Everist is appointed.

The next nominee is Dan J. Williams Sr. to be a director of the Federal Home Loan Bank of Des Moines. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Williams is appointed.

The next nominee is Jeffrey S. Hassel to be a director of the Federal Home Loan Bank of Des Moines.

Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye.

Mr. Hassel is appointed.

The next nominee is Lupe L. Garcia to be a director of the Federal Home Loan Bank of Dallas. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Garcia is appointed.

The next nominee is Ike J. Monty to be a director of the Federal Home Loan Bank of Dallas. Madam Secretary?

MS. BAKER: Director O'Neill? I'm sorry.
Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Monty is appointed.

The next nominee is Tom Seth Smith to be a director of the Federal Home Loan Bank of Topeka. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye.

Mr. Smith is approved.

The next nominee is Representative Phyllis Stafford to be a director of the Federal Home Loan Bank of Topeka. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye.

Representative Stafford is appointed.

The next nominee is Charlene Gonzales Zettel to be a director of the Federal Home Loan Bank of San Francisco. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Ms. Zettel is appointed.

The next nominee is Connie R. Wilhelm to be a director of the Federal Home Loan Bank of San Francisco.

Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Ms. Wilhelm is appointed.

The next nominee is Carmen J. Aguiar to be a director of the Federal Home Loan Bank of Seattle. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye.

Ms. Aguiar is appointed.

The next nominee is Hector R. Ariceaga. I knew I would have difficulty with that on my Norwegian tongue. Hector R. Ariceaga. Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Aye.

Mr. Ariceaga is appointed. Excuse me.

And the final nominee is James R. Irvine to be a director of the Federal Home Loan Bank of Seattle.

Madam Secretary?

MS. BAKER: Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

Mr. Irvine's appointment is approved.

Having completed the process of approving each nominee by a separate vote, is there any further

discussion on the parent resolution in the slate of candidates before us other than to note, as Director Mendelowitz has mentioned, three of the nominees--Ms. Griffin, Mr. Daoud, and Mr. Hassel--their appointments are subject to the review by the Finance Board of each individual's appointed director eligibility certification form, will become effective upon confirmation of director eligibility.

In the case of all of the other remaining nominees, their appointment will be effective on our vote. Are there any other comments?

[No response.]

CHAIRMAN KORSMO: Hearing none, I call the question on the larger resolution. The Secretary will please call the roll.

MS. BAKER: On the matter before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

The resolution is approved. The staff will inform those who have been recommended for appointment of that fact. Some of these individuals were subject to certain conditions, as we've just mentioned. Once the staff determines these individuals have made whatever personal arrangements are necessary to serve on the board, we will have a total of 28 new members of the 12 boards of directors of the Federal Home Loan Banks.

So my colleagues on the Board are aware of it, we're tentatively planning a training session for the new directors sometime in late April or early May. I know all of my colleagues share my concern that all of these appointees understand the very serious nature of their roles and the important part they play in managing the very large businesses that are the Federal Home Loan Banks and the Federal Home Loan Bank System.

Thank you. May I suggest that before we proceed to item number four, we may want to take a five-minute recess.

DIRECTOR MENDELOWITZ: I'm always game.

CHAIRMAN KORSMO: I knew that. So why don't we do that? We will take a five-minute recess. We will be back at 11:15. Thank you.

[Recess.]

CHAIRMAN KORSMO: We are back in order. Everybody's here?

The last item on our agenda is an item that has been placed on the agenda of today's meeting at the request of Directors Leichter and Mendelowitz. The item, as I understand it, is a proposal authored by Dr.--excuse me--by Director Leichter to amend the delegation of authority to the Chairman of the Federal Housing Finance Board.

Let me say from the outset that I look forward to a full debate on this issue in the open on the public record, a discussion that can address any number of the representations of the delegation that, frankly, I've seen over the last few days.

Of course, Director Leichter will introduce his own resolution. But before recognizing him for that purpose, allow me to provide a little context for this discussion. First, the basic question--what is a delegation of authority? In my Webster's Dictionary, it defines "delegation" as the act of empowering to act for another. This is a critical point. Under any delegation, including this one, the full Board has not, and under the law may not, abdicated or surrendered or ceded its duties to the Chairman.

This is equally true for both types of duties placed on this Board, those of management and of regulation. So what has the full Board done by enacting a delegation of authority, which it did back in 1990 and reaffirmed in 1993? The answer is best understood by knowing that this Board has never managed itself by collaboration or consensus among the Directors.

Initially, Congress delegated the Secretary of Housing and Urban Development to establish and operate the Finance Board until a quorum was confirmed. Once the first set of Directors was in place, it was a part-time Board with a part-time Chair for the first three years.

The Board acted unanimously at the very first meeting to charge the Chair with the responsibility of administering the agency on behalf of the Board.

Note my choice of words. The delegation of authority enacted in 1990 and in operation today does no more or less than exercise the Board's duty to manage the staff and execute established policy by charging the Chairman with those tasks. The Board has never surrendered the power to give instructions to the Chairman or to require reports of the Chairman, or even to assume control of certain management decisions or to resume direct management by group.

In any of these circumstances, all it would take is a majority vote of the Board. It is fair to ask how I know what was in the minds of the founding Directors of the Federal Housing Finance Board when they adopted the basic delegation of authority, the delegation that remains our management tool today. First, I know what the text says. It is entitled "a delegation," not an abdication or a cession or a surrender.

Second, I know that the text clearly frames the matter as the full Board in a unanimous vote charging the

Chairman with responsibilities. Chairman Evans did not make a unilateral declaration that the Federal Home Loan Bank Act or the President's designation of him as Chairman entitled him to full control of agency administration or policy execution. The Board decided the delegation with a public vote.

Third, I know that it is a legal impossibility for the Board to cede authority Congress has specifically granted it. As a Board, we're authorized to choose the best management or regulatory decision-making processes, just as all independent boards and commissions have done for many decades. Experience at this agency and all others has proven that management is best accomplished through clear and consistent accountability.

Measuring accountability for groups can be a slippery thing. And so, all boards and commissions have elected, some with the endorsement of the Congress, to vest day-to-day responsibility and accountability in one member. There is modest degree of variation in these delegations. But every multimember board or commission has a delegation in some form.

Now, after three years with part-time Directors and a part-time Chairman, Congress decided to make the Finance Board a full-time job. Those who contend that our current delegation was a temporary expedient to allow a transition from the part-time Directors to a new group of full-time appointees, well, very simply, they are mistaken. Even a cursory reading of the 1993 modifications to the delegation dispels that myth.

The 1990 delegation was fundamentally unaltered, but a transition tool was inserted to designate the Secretary of HUD as the Acting Chair if there were no other alternatives. Now, the requirement that the Chairman consult fellow Directors on personnel decisions was deleted. Yes, you heard correctly. The ability of the Chairman to exercise the Board's management powers was actually broadened, expanded. Clearly, such a change has no logical or necessary nexus to the status of the Board as part-time or full-time.

If anything, a Chairman and Director as expected to devote full-time to work here at 1777 F Street would be more, not less, able to consult each other. May I suggest that perhaps after three years, the

Board found the consultation requirement to be inefficient or even unnecessary?

This much is crystal clear. The 1993 revision of the 1990 delegation does not make any connection to a transition, is not subject to a sunset provision after the transition was complete, bears no obvious link to a transition, and serves to expand the powers laid in the Chairman's hands. If you read the transcript of that 1993 meeting, as I have, you will find not one word explaining or justifying the revision on grounds that a transition was being made from a part-time to a full-time Board.

In sum, the delegation of authority to a chairman is not and never can be a surrender of responsibility by a board or commission. Instead, it is a management tool used by all boards and commissions to effectively link management results and executive accountability. This Board has used that tool since its very first day under the direction of Chairmen both Democratic and Republican, including three current members of this Board.

With that by way of an opening, may I recognize Dr. Leichter and assure him that I will listen carefully as he explains which management failures he believes will be cured by replacing the Finance Board's current delegation. So Director Leichter?

DIRECTOR LEICHTER: First, Mr. Chairman, let me assure you I'm not going to deal with all of the management failures. So--

[Laughter.]

CHAIRMAN KORSMO: God bless you for that.

DIRECTOR LEICHTER: Okay. Secondly, it's an interesting process where you hear the opposition to a resolution before you hear the resolution being proposed and the arguments for it.

CHAIRMAN KORSMO: Just context.

DIRECTOR LEICHTER: But yes. It was an interesting context. But it was helpful because I think I'll be able to answer some of the--if they weren't questions, at least some of the doubts that you seemed to express in your comments.

Let's--just for good order, why don't I move the resolution that Director Mendelowitz and I have put

on the agenda, and then I'm going to speak to it. I will also be happy to answer any questions if anybody has any questions.

CHAIRMAN KORSMO: That's fine. I'm assuming the motion is the--

DIRECTOR LEICHTER: Resolution, yes.

CHAIRMAN KORSMO: --amendment as distributed.

DIRECTOR LEICHTER: Yes. Good. So I will--

CHAIRMAN KORSMO: This motion is on the floor. Is there any discussion of the motion? Director Leichter?

DIRECTOR LEICHTER: Yes. Let me say what we're dealing with here is really the integrity of this Board, its good function, and permitting Directors to carry out their responsibilities. The Chairman of this Board is presently acting under an overly broad and an outdated delegation of authority.

No present or sitting member of this Board has voted for this delegation, which, as you just heard and as I will explain further, was initially approved in 1990 at a time when this Board was a part-time Board. And it

was then modified and somewhat broadened in 1993 to deal with a particular historical situation.

This delegation gives more power to the Chairman of this Board than the chairs of any comparable financial agencies, and that includes the Farm Credit Administration, the Commodities Futures Trading Commission, the National Credit Union Administration, the Securities and Exchange Commission and, the Federal Reserve Board. Yes, Chairman Korsmo has more power under this delegation than Alan Greenspan has under the delegation regarding the Federal Reserve Board.

So what we're dealing with here is not shall we get rid of any delegation and act without delegation, which somewhat seemed to be implied by your comments. What we're dealing with here is to have an appropriate delegation, one that I believe carries out the intent of Congress when it created a full-time Board.

Let's go to the history. In 1990, when the basis of the delegation that we're still acting under was enacted, this was a part-time Board, and clearly part-time boards spend less time, are less available, and therefore have more reason to give more of the discretion

in the delegation to the Chairman. And that was done in 1990.

1993, you had a very particular situation. And whether it's reflected in the actual minutes, the facts are very well known. In 1993, the Board was transitioning from part-time to full-time. Chairman Evans had already announced that he was leaving. The other members of the Board had either not indicated that they would serve, or they hadn't been appointed. So there was real concern that you would not have a functioning Board at all.

So the main purpose of the 1993 resolution was to have the designee of the Secretary of HUD step in as Chairman. The other thing that was done was to remove the provision regarding consultation, which was in the 1990 resolution. There was a provision there that the Chair should consult with the members of the Board. That was removed in 1993 because it wasn't clear that there was any Board for the Chairman to consult with.

So you had a particular historical condition which molded that delegation, and that delegation has continued in existence. And even if the delegation made

sense in 1993 and in 1990, I certainly think it's appropriate for Directors who never voted on the delegation to pass on it. And as I pointed out, the conditions and circumstances we have now are totally different.

We now have four members who have been appointed or nominated by the President, confirmed by the U.S. Senate, and of course, we have the Secretary of HUD and his very able designee, John Weicher. We have a full-time Board here, with the exception of the Secretary of HUD.

Now, when I first joined the Board in August of 2000, my good friend and colleague here, Tim O'Neill, said one of the things we've got to do is we've got to change this delegation. And we worked on that, and I mention that because the effort to change the delegation is not something that is aimed at John Korsmo or aimed at a Republican Chairman.

This delegation was wrong under Bruce Morrison. This delegation is wrong under John Korsmo. This delegation was misused by Bruce Morrison, and I submit it has been misused by John Korsmo.

Now the delegation that we provide for--and yes, you need a delegation. You need to have an administrative head, and our delegation provides for that. It's a reasonable delegation which provides for the efficient and proper functioning of the Board with the Chairman as the administrative head for the day-to-day functions. And these include the expenditure of funds. He oversees the Board offices. He sets the agenda. He directs and oversees personnel matters.

The changes that we make deal with the members of the Board carrying out what I think are very important and significant functions. One, we require the approval of appointments to the three offices of the Board. That's Human Resources, Office of General Counsel, and Office of Supervision. Those three will require the approval of the members of the Board of Directors.

Secondly, reorganizations--reorganizations must be approved by the Board of Directors. And I think it's clear that reorganizations deal with the very basis of how the agency functions. It's something that Directors need to be involved in.

Then the resolution that we've offered on the delegation makes clear that the Chairman cannot set the policy, and actually, this Board has stated that just very recently in its Standards of Conduct. But it ought to be stated in this delegation for reasons I will get to.

And the fourth change that we've made is to provide that if the Board ever has less than four members serving on it, then one member can put an item on the agenda. The current resolution says you have to have two members. It may be that in the future, this Board, as it has in the past, will have, let's say, only three Board members. In that event, it doesn't seem appropriate to say that two have to--two have to be the minimum to put an item on the agenda.

Let's just compare our delegation, the one that exists currently and that Chairman Korsmo is acting under, with the delegation of other financial agencies. Because in your opening statement, Chairman Korsmo, you said, well, you know, there's minor modifications, or words to that effect. These are not minor modifications.

They go to the very heart of the functioning of these offices.

As we all know, and I'm going to--let me just say I'm going to pick on two particularly important functions. One is the appointment powers of major offices, and I've identified the three offices at the Board, and the second one is the power to reorganize the agency.

At the Federal Housing Finance Board, that power resides solely in the Chair, the power both to make appointments and reorganization. At the Federal--sorry, Farm Credit Administration, the chair has neither the power of appointment, nor the power of reorganization. At the Federal Reserve Board, the chair has neither the exclusive power of appointment nor the power of reorganization.

At the Commodities Futures Trading Commission, the chair has neither the appointment power nor the reorganization power. At the National Credit Union Administration, the chair has neither the appointment power nor the reorganization power.

At the SEC, the chair does not have exclusive appointment power. He does have reorganization power. Now Shane Goettle sent around a chart regarding these various powers, supplementing a chart that I had sent out and I think essentially confirms what I've said.

There's more verbiage in it, but if you look at it, you'll see that throughout it says, "Board votes to approve, Board votes to ratify," and so on, identifying the power of the boards.

Now, in the SEC, this chart that Shane put out says that the chair has the appointment power over the main offices without the involvement of the board. I believe that's wrong, and I quote from under SEC Reorganization Plan Number 10, this is a quote. "Appointments of the heads of major administrative units under the commission shall be subject to the approval of the commission."

At the FDIC, the chair has, as in this agency, the appointment power and the reorganization power. But the FDIC, out of its five members, two are not full-time. And we have one of our Directors who is not a full-time Director. So the FDIC authority to the chair, which is

comparable to the authority that this Board has, makes sense for the FDIC because 40 percent of the directors are not full-time directors.

CHAIRMAN KORSMO: So it's that difference somewhere between 20 percent and 40 percent that makes the difference in your mind?

DIRECTOR LEICHTER: I think that's what I said.

CHAIRMAN KORSMO: Okay, just to be clear.

DIRECTOR LEICHTER: Okay. And your math is correct.

CHAIRMAN KORSMO: Thank you.

DIRECTOR LEICHTER: Now, if you take a look at the congressional intent in creating this Board, it's fairly clear to me that the current delegation is ultra vires. I think it goes clearly beyond the intent of Congress.

Congress, first of all, stated that the management of the agency of the Finance Board resides in the Board of Directors. Secondly, it created a full-time Board. And thirdly, it provided for a very limited power of delegation.

Now that provision deals with a delegation to employees, administrative units, and banks. It doesn't directly deal with delegations by Directors. But it is very clear from reading this that Congress intended to have a very limited power of delegation.

The vice of the current delegation is that what has happened in practice is that the Chairman has assumed a role and a function which I think is beyond that which is appropriate, and it's one which diminishes the role of the--excuse me--of the other Directors and limits their ability to fulfill the functions that I believe Congress intended them to exercise.

We've had instances, and again, I want to make this clear that it's not a criticism of the current Chairman as such. It's a criticism of a system that has existed since 1993. It was wrong, as I said before, under Chairman Morrison, and it's wrong under Chairman Korsmo.

We've had budgets that have been adopted and changed without Board votes. We've had other policies pursued by Chairs without Board votes. We've had a reorganization just last year of this agency without a

Board vote and without any Board involvement, without any consultation whatsoever. I think that's wrong.

We now have a situation, frankly, that I find disturbing where issues relating to registration with the SEC, where negotiations have been engaged in and discussions have been had, which seem to indicate a policy by this agency that's never been voted on by this Board. It's never been discussed by this Board. A fundamental issue or question of this sort, and yet we have no Board involvement whatsoever.

And all of this is done under the umbrella of this very broad delegation that we're acting under. It's become almost a license for Chairs to veer into the policy role and to take that over from the Board of Directors. Now, as the name states, we are a board. We're the Federal Housing Finance Board. This is not a sole proprietorship.

It's not an agency like HUD, which has a head who has the powers of running that agency. It's a board. And I strongly and firmly believe that the Federal Home Loan Bank System will benefit by adoption of this resolution, which will permit it to function as I think

Congress intended, act as a board collegially, deliberatively, and where major decisions will have the considered judgments of the five persons who have been nominated by the President and confirmed by the Senate and who constitute the Board.

So with this delegation, we're providing the Chair with all the power that is needed to have an orderly proper functioning of this agency, but to provide that the policy decisions--that major decisions affecting the running of this agency, like choosing office heads, reorganizations, will be done collegially and collectively by all the members of the Board of Directors.

I strongly urge that this resolution be adopted.

CHAIRMAN KORSMO: Is there any other discussion of the motion? Tim, you're--

DIRECTOR O'NEILL: Well, since my name was mentioned once, I guess I should just state for the record that my problem with a unnamed past Chairman wasn't the delegation, it was that person exceeding the

scope of the delegation. That was my problem with the past Chairman. It wasn't the delegation itself.

CHAIRMAN KORSMO: Is there any other discussion? Dr. Mendelowitz?

DIRECTOR MENDELOWITZ: I have to say, Director O'Neill, my recollection of events seems to be somewhat different than yours. And I remember our discussions on these issues very clearly because you were the very first person from this Board who came to see me after I was nominated by the President to be a member of the Board of Directors.

And you came to see me with a list of issues that you thought were really important sort of to my education to understanding what was going on in the Home Loan Bank System and the Federal Housing Finance Board. And the very first issue you raised with me was the delegation. And you told me that the delegation had nothing to do with any individual Director or Chairman, but it had to do with doing the right thing in terms of what the statute provided for and what it was appropriate for the Board of Directors to delegate to the Chairman.

And I found your argument so persuasive that I told you, "Sounds reasonable to me. I will support making those changes." Then when I finally did get appointed to the Board and made Chairman by the President, it was in a really transition situation. It was when a new President had been elected, and I was very leery about exercising any kind of determinations.

The President made a request to executive branch agency that no hires be made during the transition. While we're an independent agency, we didn't have to concur, but I thought it was the appropriate thing to do, and I made a decision that we would not do any hiring out of respect for the President's wish.

But I was prepared to change the delegation of authority consistent with what you said was appropriate, and I believe that's what's in the resolution put forward by Director Leichter. And when I asked you about, "Well, the time has come. Let's fix this inappropriate, obsolete, archaic delegation," you said that you were campaigning very hard to be made Chairman of the Federal Housing Finance Board and that the instructions you had

gotten was that they didn't want any decisions made. And so, we should hold until everything got settled.

And to reinforce that position of yours, you said that if you sent a resolution around for a notational vote, you'll mark hold for a meeting and if, in fact, I called the meeting, you said you wouldn't come. There wouldn't be a quorum. We wouldn't take any action.

But you assured me that as soon as you became Chairman, if you succeeded in that effort, you would change the delegation. So I don't quite understand why you said what you said a few minutes ago as to your position on the delegation and what you said to me at great length and with a great articulate argument as to why it's appropriate to change the delegation.

DIRECTOR O'NEILL: I guess if we have a difference of opinion, we have a difference of opinion. But I only can go back to what I said before is that my problem was not a problem with the delegation. It was a problem with a past Chairman exceeding the scope of the delegation. That was my problem with the past Chairman.

CHAIRMAN KORSMO: Dr. Weicher?

DIRECTOR WEICHER: I don't mean to interrupt this colloquy at all.

DIRECTOR MENDELOWITZ: No, go ahead. I'm not-- we don't need a lot of back and forth. But I thought it was important because I remember this so clearly because it was the first thing I learned about the system that there's no ambiguity, no doubt in my mind as to what the substance of the discussion was, and it's important to put it on the record. But there's no point in going back and forth.

Go ahead, John.

DIRECTOR WEICHER: Okay. A few things occurred to me on this. As you all know, I became a member of this Board in, I believe, July of 2001 as the Secretary's designee. And I remember conversations with Director O'Neill at around that time--I can't date them particularly. But we talked on various occasions about this.

My recollection of the delegation issue is consistent with Director O'Neill's in terms of what he said to me at the time, although I haven't thought very much about it over the intervening period. But as this

discussion goes back and forth, I'm thinking back to my recollection of the specifics on this.

Beyond that, Director Leichter made the point that none of us were on this Board in 1990, and that's certainly true. But I was in the room at the time. I was, as you all know, providing staff support to Secretary Kemp's designee on the Board, Deputy Secretary DelliBovi, who, as we all know, is a good friend of almost all of us on this Board for a very long period of time. We established that back at the New York--at the Board meeting we held in New York.

And my recollection of this--and this is that it was clear that we needed a chief operating officer for the Board to be able to function. We had started--there were both specific and general--specific circumstances, but also the general issue. We had started in August of 1989 with the passage of FIRREA with the Board, with the Federal Housing Finance Board coming into existence with the Board consisting only of the Secretary of HUD because the other four members didn't exist up to that point.

And so, there are a number of members of the staff who were on the staff at that time and may remember things a little differently.

DIRECTOR O'NEILL: I was the Director of Congressional Affairs.

DIRECTOR WEICHER: Right. Right. And our General Counsel was on the staff part of that time, and I know that Joe McKenzie was on the staff, and I've forgotten everybody else. Sylvia Martinez came a little bit later.

But the point of this is that for some period of time, because of the question of whether the Congress had intended a full-time Board or a part-time Board, the Secretary was the Board. And we used to say that he had to sign the payroll checks. I'm not sure if that's literally true, but an extraordinary amount of detailed material came to him in his capacity as the Board.

The decision in 1990, I don't remember this as being driven by the status particularly of the fact that the Board was part-time, but it being driven by the need to operate the Board in an efficient manner. There were real questions at that time, as I think many of us will

remember, as to the long-term viability of the Federal Home Loan Bank System in an environment where advances were dropping steadily and membership was declining. And it was not awfully clear whether the System would survive.

Indeed, as I've said in other context, the big difference coming back in 2001 and from leaving in 1993 is that that last issue was no longer on anybody's mind about the System. Extraordinary achievement.

Director Leichter also made reference to particular circumstances. I was not here in 1993 at the time of that subsequent modification of the original delegation. But it occurs to me that particular circumstances come up very frequently and not just with this agency. As we know, when President Bush assumed office, no member of this Board was serving a term as a presidential appointee confirmed by the Senate.

If memory serves correctly, two of my colleagues were serving as recess appointments and one was serving an expired term. That has happened before, and it happened in our predecessor, the Federal Home Loan Bank Board, quite regularly. In 1977, the Board

consisted for a while of one holdover Republican, and Garth Marston had to serve as the Board for some time before President Carter was able to make nominations and the Senate voted to confirm them.

Mention of the FDIC in the media and in the GAO report reminded me of something I haven't thought about too much in the intervening period. My wife was working at the FDIC in 1993, and the situation for the FDIC going into the new administration was that there were two holdover members, one Democrat and one Republican. And during the transition, the Democrat died unexpectedly, leaving one member who was regularly confirmed but a very recent appointee as the board of the FDIC.

And as has been true, I think, in almost all administrations, the first priority of the new administration is not to appoint the members of this Board or the members of other financial regulatory agencies. It is to appoint the Cabinet and the major sub-Cabinet positions and so on. And so, President Clinton did not move immediately to fill these positions.

And then, because of the questions about Whitewater and financial issues, it became very

difficult. The Senate did not move expeditiously on the appointees. And so, the one holdover member, whose name was Andrew Hove--Skip Hove--found himself serving for, I believe, close to a year. My memory may be wrong on that. But I think that's right. And as was said in various financial trade publications, the bipartisan consensus was that he did a good job in an impossible situation.

Without--I don't know how that board could have functioned in the absence of the chairman having the ability to run it. I mean, the policy--as I remember it, Mr. Hove was not trying to make major policy. But the place had to run on a day-to-day basis.

I think we would all agree that the FDIC's role in our financial system is yet more fundamental than our role in our financial situation system. I certainly learned in graduate school that it was the most important reform of the 1930s in preventing depressions in the future.

My point is that particular circumstances arise frequently here and in our sister agencies, and there needs to be a system in place to operate the thing on a

day-to-day basis. And I think the system we have here does provide us with that ability to operate on a day-to-day basis, and I draw in my own mind a sharp distinction between the policy issues that we address as a Board, and we have addressed expeditiously as a Board at the time I have served over the last 18 months, and the day-to-day housekeeping matters, some of which are bigger matters than others, no doubt.

But again, I think that's an important distinction, and I think that distinction is preserved in the delegation. I recognize that, as Director O'Neill said, the delegation can be abused. The Board has some ability to react to that abuse when it occurs, both publicly and privately. But I think the delegation as it exists is a reasonable delegation, and I myself haven't seen specific issues which lead me to be concerned about the exercise of that authority.

Thank you.

DIRECTOR LEICHTER: John, would you yield to a question?

DIRECTOR WEICHER: Sure.

CHAIRMAN KORSMO: You can't yield to a question. I have to recognize you.

DIRECTOR LEICHTER: Okay. I'm sorry.

CHAIRMAN KORSMO: And not even of the delegation. Director Leichter?

DIRECTOR WEICHER: But I will answer the question. Regardless of all that.

[Laughter.]

DIRECTOR LEICHTER: Thank you. The resolution that we're offering and the delegation provides that the Board delegates to the Chairperson authorities, powers, and responsibilities of the Board necessary to effect the day-to-day management and logistical functioning of the Finance Board including the authority to execute documents on behalf of the Board, including regulations, resolutions, and orders duly passed by the Board.

It further states that the Board hereby delegates to the Chairperson authority to direct Finance Board personnel matters, provided, however, the appointment of the Directors of Finance Board Offices shall be subject to the approval of the Board. Do you feel that that doesn't give enough authority to a

Chairperson to run the day-to-day affairs, to take care of those administrative functions that you refer to?

DIRECTOR WEICHER: I think that these matters are properly--the provided clauses in the second "resolve further" paragraph and the clause in the third paragraph, I think those are usefully and appropriately the prerogatives of the Chair, and I see no reason to change them.

DIRECTOR LEICHTER: I'm sorry. You think that the Chair should appoint--

DIRECTOR WEICHER: Yes. I see no reason--

DIRECTOR LEICHTER: --the Board offices without involvement of the other Directors?

DIRECTOR WEICHER: I don't think they should be subject to the approval of the Board, the formal approval of the Board.

DIRECTOR LEICHTER: Right. And you disagree with the Federal Reserve Board and the Commodities Futures Trading Commission and the National Credit Union Administration and the SEC. You would recommend to all of them that they take away from the board those powers and that it should reside only in the chair?

DIRECTOR WEICHER: I'm not making a recommendation to any other regulatory body in the government of the United States or on any other level.

CHAIRMAN KORSMO: When this discussion is done, I want to comment on that, if you don't mind.

DIRECTOR WEICHER: Just to add a little bit to that. I think in practice, as I think you know I serve also as the Secretary's designee on the board of the Neighborhood Reinvestment Corporation, the entire board of which are people who serve ex-officio, and all of the other members are members of financial regulatory agencies. The chairman is Federal Reserve Governor Ned Gramlich. It includes the representatives of the National Credit Union Administration and the Office of Thrift Supervision and the Office of the Controller of the Currency, and I'm forgetting a colleague here--and the FDIC.

And I think, in practice, chairmen of those agencies have a great deal of day-to-day authority. It at least used to be discussed openly in the press quite frequently that the chairman of the board of the Federal Reserve ran the Federal Reserve in the days of Arthur

Burns, his predecessors and successors, it was well known and it was commonly discussed that the chairman had an awful lot of authority and ran the thing. Not just determining policy, but ran the thing.

And I know in occasional conversations I have had with Directors, they have assumed specific responsibilities at the direct request of the Chair, of the Chairman of the Board at various times in the past. I have not asked anyone on the Board about the current operations, but I think it is well established the chairmen of these entities have substantial day-to-day authority. Again, I'm speaking about us.

DIRECTOR LEICHTER: But they do not have the authority to appoint office heads without the approval of the other Board members or reorganization without the other Board members.

DIRECTOR WEICHER: That is up to other boards. That is up to other entities. I think the system we have here works effectively, from my standpoint.

CHAIRMAN KORSMO: Let me interject myself at this point because I think, frankly, we don't want to-- we're spending too much time on this particular point

that's based on, what my understanding is, is a gross mischaracterization of the practice, if not the letter, of the regulations and statutes that have an impact on them of the practice at all of these other agencies. And that's why I think, well, first of all, let me--if you don't mind--

DIRECTOR LEICHTER: I'm fine.

CHAIRMAN KORSMO: --respond to a couple of points quickly. I think the general arguments have been made about delegations of authority and are generally well understood.

I think there's a couple of points that particularly came up in Director Leichter's comments in support of his proposal that I just wanted to take a minute to touch on before we go to this point about the state of play in other agencies, whether or not that is relevant to this discussion or not.

I would argue it perhaps is not because each of the agencies is a unique circumstance. It's constructed and established to deal with a unique problem.

And so, what they do at the Farm Credit Administration or what they do at the Commodities Futures

Trading Commission or what they do at the SEC or elsewhere, I think there's an argument about relevance. But let's concede relevance and then go to that point. But before I do that, let me just touch very quickly on some of the other points you raised.

First of all, Director Leichter, I thought it was interesting your opening comments, you specifically mentioned that you were not going to make any reference to what you thought were particular failures of my leadership in this regard.

Nevertheless, you went on to make a statement that I have misused my authority. I think that's the word you used, "misused." That's what my--and then moved on to another point without providing any specific examples. That's why my wife calls a hit and run. And frankly, I take umbrage at that characterization of my chairmanship.

That having been done, that having been said, I'm going to engage in a little hit and run of my own in getting to the point about other agencies and what the authority of the chairs under delegations in the other agencies might be.

The chart that you're operating under, I think everybody has seen, has been drawn entirely from the copy of the draft report of the General Accounting Office's review of our functions here. I will remind the members of the Board because, in their case, I'm reminding them because they've all seen this memorandum.

But I'm making the point, for the record and for those who are in the room, that when that memorandum was distributed, it included or it came with an e-mail that requested--not requested, demanded that the contents in this report be safeguarded to prevent premature disclosure. Please do not show or release its contents for any purposes.

And frankly, that's a little troubling that that happens to be the basis for this debate. That having been said, let's move on to--there's my hit and run. That having been said, let's move on--

DIRECTOR LEICHTER: Well, let me just answer-- can I answer that just to--

CHAIRMAN KORSMO: Yes, please do.

DIRECTOR LEICHTER: Just to tell you that long before we received a GAO report--

CHAIRMAN KORSMO: Yes.

DIRECTOR LEICHTER: --we sent you a memorandum-

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CHAIRMAN KORSMO: That's correct.

DIRECTOR LEICHTER: --that set forth precisely all these things.

CHAIRMAN KORSMO: That's correct.

DIRECTOR LEICHTER: It's not based on the GAO report.

CHAIRMAN KORSMO: That having been said--

DIRECTOR LEICHTER: The GAO report just confirmed what we said.

CHAIRMAN KORSMO: Is this the--well, in fact, it did not confirm that. And in fact, we'll get to that point in a moment. Is this the chart that was included in the GAO report?

DIRECTOR LEICHTER: Is this the chart?

CHAIRMAN KORSMO: Yes.

DIRECTOR LEICHTER: This was the chart that we prepared, yes.

CHAIRMAN KORSMO: It's not? No, it's from the GAO report. Is that not correct?

DIRECTOR LEICHTER: It is not.

CHAIRMAN KORSMO: It's not the one that appears in the GAO report?

DIRECTOR LEICHTER: No.

CHAIRMAN KORSMO: Well, then I stand corrected. That having been said, let me say this. You know, a chart that uses as a response to particular items a simple yes or no answer, you know, is certainly an effective tool. It's a simplification, and simplifications are always significant.

Unfortunately, simplifications tend to lead, at some point, to mischaracterizations. That's what prompted the preparation of this report because I think it is inappropriate to suggest that this resolution would change the circumstances as they actually exist at any number of these boards.

The reality is a consultation on the hiring of staff people is not anticipated in the operations at the FCA or the Federal Reserve Board or the CFTC or the NCUA or the SEC. Everyone concedes it's not the case at the FDIC. The reality is that all those boards do, if they do anything, is to ratify the choices made by the chair.

The chair directs and controls the screening and selection of candidates in every instance.

The same is true under reorganization powers, with perhaps rare exception that I won't take the trouble to cite in this point, the chair directs or controls development of plans in every instances. In some instances, the board at least has authority to ratify those decisions of the chair. That having been said, in practice, that is not the case at virtually any of these agencies.

I was interested in your reference to the fact that our current delegation of authority is an anachronism because it was developed in 1993. Then you go on to support your argument by citing a reorganization plan at the SEC that, interestingly enough, was adopted in 1950. So, you know, if ours is an anachronism, this is ancient history.

But that having been said, your reference to the Reorganization Plan Number 10 of 1950 at the SEC is an interesting one. Having actually spoken to people at the SEC, including Dana Schlichtman, who is the management analyst in the Office of the Executive

Director, and Bill Wiggins, who is the senior management analyst in the Office of the Executive Director, they explained that Reorganization Plan Number 10 of 1950 has never--let me say that again--never, in their experience, been interpreted by the SEC as requiring an actual commission vote on any of those items.

And I don't make this to be a big point except for the fact that, as I say, a number of the points that are being made, I think, are inapt, including the reference to our regulations--excuse me, the statute. Director Leichter, you made reference to Section 1422 (bb) (1) of the Federal Home Loan Bank Act in discussing delegations, which is just plain inapt in this instance in that it deals with staff issues.

It deals with the delegations on the part of the Board to staff members.

DIRECTOR LEICHTER: I believe I said that.

CHAIRMAN KORSMO: It makes no reference to delegations to the Chair. All of that, let me confirm one other thing. There was a point you made about budgets and how those budgets were referred, were adopted without any reference to the members of the Board. I

assume you're willing to clear the record on that point that since I've been Chairman, that has not been the case.

You're making reference to previous budgets that were adopted under previous Chairs. Is that not correct?

DIRECTOR LEICHTER: That is correct.

CHAIRMAN KORSMO: Thank you. I appreciate that.

DIRECTOR LEICHTER: And I was as critical of this resolution insofar as it was applied by Chairman Morrison as I was--

CHAIRMAN KORSMO: Thank you. I appreciate it.

DIRECTOR LEICHTER: As it is now. Let me just ask you this. You made a point saying how looking at these other agencies, they don't approve, they ratify. Well, could you tell me what the difference is between ratifying and approving?

CHAIRMAN KORSMO: Yes, I can. I think in this particular instance, that is--well, let me say this. There is not necessarily a difference between ratifying and approving. But that isn't what your new delegation

of authority calls for. It calls for something quite different.

DIRECTOR LEICHTER: Namely?

CHAIRMAN KORSMO: In terms of the appointment to be subject to the approval of the Board. Well, I'm not clear what exactly that apprehends. I mean, what does that mean? Are you anticipating that there will be involvement in the selection of the candidates?

DIRECTOR LEICHTER: I think approval speaks for itself.

CHAIRMAN KORSMO: As a practical--

DIRECTOR LEICHTER: I've never--I've never--

CHAIRMAN KORSMO: So the point being--

DIRECTOR LEICHTER: I've never found that approval is a complicated word.

CHAIRMAN KORSMO: So the point being--so let me--well, it isn't because it has more than one possible explanation. So what you're anticipating is we could have a situation where we appoint--excuse me--where the Board approves the selection on the part of the Chairman of--a new Director of the Office of Supervision by a 3-2 vote?

DIRECTOR LEICHTER: If that. Maybe it's a 5-0 vote. I don't know what the vote is going to be, but this resolution--this resolution--

CHAIRMAN KORSMO: But that's a possibility.

DIRECTOR LEICHTER: Is it a possibility that the vote will be less than unanimous? Of course it's a possibility.

CHAIRMAN KORSMO: All right. All right.

DIRECTOR LEICHTER: But the point is that ratification and approval and the ratification is what some of these other agencies call it. We call it approval. And approval means just that, by the Board, by members of the Board. Maybe it's even done other than at a Board meeting. It can be done by notational votes.

CHAIRMAN KORSMO: But that doesn't--

DIRECTOR LEICHTER: But it--

CHAIRMAN KORSMO: Unfortunately, that isn't what's included in your--

DIRECTOR LEICHTER: Well, it says--

CHAIRMAN KORSMO: --proposal.

DIRECTOR LEICHTER: I never understood you to have a problem with the word "approval."

CHAIRMAN KORSMO: Well, I think we have to be more specific. Again, your own suggestion is that there has been a problem. I'm assuming not just with the process, but with the results of the delegation as it exists today. Otherwise, there wouldn't be the reason for bringing it up.

And again, I don't want to quibble about particular instances. You said--you made the point, and I think it was a fair one, you're addressing this as a policy question that supersedes any concern you may have about any decision this particular Chairman may or may not have made. And I think that's a fair one.

But let me say this. If that is, indeed, what we're considering here today, I think we shouldn't lose sight of what the issue is. And that is that the same provision of the current delegation which empowered two Directors, you and Dr. Mendelowitz, to place this proposal on the agenda today also empowers you to bring up resolutions reversing hiring decisions or imposing organizational schemes or directing the Chairman to implement specific management changes.

I think the fact that we're having this discussion today is stark evidence of the appropriateness of the current delegation of authority and that it works. If it didn't work, we wouldn't be having this discussion. Since I've been Chairman, we've met at least once a month. A board that meets that frequently, I would suggest, can address significant policy issues, has every opportunity to raise other issues, cannot in any way be said to be abdicating its authority.

This Board remains a free body, free to act in the areas covered by the delegation if a majority of the Board so chooses. And I think that's the key point. And I hope that's the key point on which people make decisions today as to whether or not the current delegation of authority needs changing.

That having been said, let me just make one last point. I think there is a fundamental flaw in a theory of management that reduces the authority of somebody to be ultimately responsible for administrative decisions. Now I won't quarrel about the policy decisions. I feel as strongly as you do about that point. I know that sometimes it's difficult to

distinguish between what's an administrative practice and what is a policy decision, and I try to be sensitive in those areas when I can.

But I just think any theory of management that suggests that decisions, particularly decisions that affect personnel items that are always sensitive, particularly in government, any theory of management that would suggest those kinds of decisions can be made by committee I think is inappropriate.

I don't want to impugn anyone on this Board's experience. I know you've all had responsible positions in very responsible organizations. But I think I'm safe in saying that I am probably the only one on this Board, and I'd be more than happy to accede if someone says I'm incorrect in this regard. I think I'm the only person on this Board who has ever been in the situation where I am the ultimate authority. In other words, I am the last recourse.

You know, John obviously has a very important position in managing the Federal Housing Commission. The reality is, however, he has a boss. I know you have had very responsible positions with the Tariff Commission,

the GAO, and other places, Allan, but someone was always the boss.

I know that you had very important positions in your career, Tim, but there was always someone else to answer back to. Franz, I'm a little looser on this because I'm not sure exactly of every aspect of your career.

DIRECTOR LEICHTER: I had 320 thousand bosses. Those were my constituents.

CHAIRMAN KORSMO: So you understand my point. And this is why, when I've had that same discussion that Allan referenced with Tim as a new Board member about delegations of authority. When I had that same discussion with Tim, when I had that same discussion with Franz, I think--and I hope you can back me up on this-- that my comment was, "Even if I were not the Chairman, if there were a proposal made to alter this delegation of authority, I would vote against it."

Because I think, ultimately, someone has to be responsible. And that's why I believe--it's not perfect. This delegation of authority is not perfect, but neither

is the proposal that's been made to replace it. I think it has fundamental difficulties, if only definitional.

I would also make mention, at the risk of having gone from the specific to the general and back to the specific, I would also have a problem with--even with a Board that does have fewer than five members giving one Director the opportunity to essentially hold up the action of the Board. I think it's always important to have at least a like mind thinking that the proposal that an individual Director wants to make is of sufficient significance that to be brought to the Board it requires a second head to look at it.

I don't mean to take that as a big point. But I think it is, even if there's only three members or four members, I think any change to allowing one member to, in essence, hold veto power over the operation of the Board is a mistake. So there we are.

Comments?

DIRECTOR MENDELOWITZ: Mr. Chairman, I obviously have some--

CHAIRMAN KORSMO: Dr. Mendelowitz?

DIRECTOR MENDELOWITZ: --material I'd like to add. But I would like to wait until Secretary Weicher returns. It's an important issue. All the members of the Board should hear all the issues, and I don't want to say anything that I have to say without Commissioner Weicher having the opportunity to hear me.

CHAIRMAN KORSMO: Listen, I appreciate that. I'm handed the note that this was his boss calling, making my point.

DIRECTOR MENDELOWITZ: That's fine. But I might add for the record, you and I actually are the two people who can claim they've had job responsibilities where they have the ultimate response. You know, nobody above us. I mean, I have businesses I ran early in my life that I was the ultimate responsible person.

CHAIRMAN KORSMO: Again, I don't want to make too big a point of that, but--

DIRECTOR MENDELOWITZ: No, no. But it's just so that--I mean, just so that I have the experiential basis to, you know, say I've been there and done that. I've walked in those moccasins.

CHAIRMAN KORSMO: I appreciate that. Given that Dr. Weicher's problem here at the moment, unless there is objection, why don't we take a five-minute recess?

DIRECTOR MENDELOWITZ: Fine.

CHAIRMAN KORSMO: We'll allow John to get his-- make his boss happy and--

DIRECTOR MENDELOWITZ: Sure.

CHAIRMAN KORSMO: --we'll come back and finish this discussion.

DIRECTOR MENDELOWITZ: As I said to him when he said--

CHAIRMAN KORSMO: Oh, there he is. Are we okay?

DIRECTOR WEICHER: Yes, I'm sorry.

CHAIRMAN KORSMO: That's all right.

DIRECTOR WEICHER: I apologize to my colleagues.

DIRECTOR MENDELOWITZ: John, this goes back to--

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DIRECTOR WEICHER: Yes?

DIRECTOR MENDELOWITZ: --what I said when you came in and said, "Thank you for being flexible about moving the time of the meeting." I said, "We're always flexible. You have a day job."

CHAIRMAN KORSMO: Thank you. Is there any further discussion? Dr. Mendelowitz?

DIRECTOR MENDELOWITZ: Yes, thank you, Mr. Chairman.

I'm a little disappointed that so much of the discussion has focused on, you know, trying to parse out the meaning of the word "is." I think what we should be talking about is, you know, doing the right thing. And what we should be talking about is looking prospectively to the future and trying to do better than we've done in the past.

And with respect to that, I think there are a couple points I'd like to make. One is that the chart that was passed out, and I have to say I'm going to wear my old GAO hat. I haven't quite totally got--I would like to admonish both the Commissioner and the Chairman for making reference to it. It is a draft, and--

CHAIRMAN KORSMO: You are correct.

DIRECTOR MENDELOWITZ: And we should--it should not even have been referenced. And I've been very careful not to--both to safeguard the copy that I have and, you know, not to make any reference to it.

CHAIRMAN KORSMO: You know, I appreciate that. Thank you, Allan. I appreciate you making that reference. I will tell you that I was quite dismayed when newspaper, frankly, media stories based on the draft to which we have not yet responded. I think it should be clear from my comments that I intend to respond vigorously to some of the points that the GAO purported to make.

I have to express my dismay, and I know you share this, that somehow or other--and I won't speculate as to how it happened--that copies of this preliminary report, without the benefit of our having the opportunity to respond to it, have made their way into the media. I know that Mr. Walker, the Comptroller General, is equally chagrined. He has sent me a letter to that effect, and to the extent that I may have violated that confidence by making reference today to it, I apologize.

DIRECTOR MENDELOWITZ: Thank you.

CHAIRMAN KORSMO: I appreciate your comments.

DIRECTOR MENDELOWITZ: Secondly, one fact is true. And that is the chart Director Leichter and his staff prepared does, in fact, I think make a pretty convincing case that the Chairman of the Finance Board has greater authority under the delegation than the chairmen of other agencies.

One point that I think no one's mentioned, though, that I think is important to this discussion is the fact that every one of those board and commission chairmen who were cited for comparison serve in their capacity as chairs based upon Senate confirmation. The chairman of the Federal Reserve Board, before he gets the more limited power of the chairman of the Federal Reserve Board, has to be confirmed as chair.

The head of the FDIC, before he or she gets the more limited delegated authority, has to be confirmed by the Senate. And the very fact that each of the Directors here have to be confirmed by the Senate as a Director, but the Chair himself or herself is not confirmed by the Senate, is just merely a designation of the President, I think it makes the case that the Congress clearly views

the Chairmanship of this agency as one involving less unilateral authority than these other agencies. And I'm not a lawyer, but that's how I would interpret it.

Secondly, I think that there's something else that's important to point out. And that is the old delegation worked and functioned for a decade with a different organizational structure of the Finance Board. For the whole period that the old delegation was in effect, the Chairman was not the chief operating officer. The Chairman was the chairman, and the Managing Director was the chief operating officer.

And that's a very, very important distinction because many of the management and administrative functions that you are exercising now as Chair were, in fact, delegated by the Board or by the Chair to the Managing Director. And throughout this whole period, the Managing Director clearly understood that it was his or her responsibility to be working for the Board as a whole.

You told me that you abolished the position of Managing Director because you viewed it as a holdover from an earlier era that was no longer appropriate.

Well, I would submit that abolishing the position of Managing Director without addressing the delegation was a mistake. It was a mistake because suddenly, you as Chair accreted back to yourself a whole range of powers and authorities and operating responsibilities that the Chair previously did not exercise.

And because of the delegation and because you've taken it on yourself as Chair, we no longer have the vehicle by which the Managing Director keeps a member of Board of Directors informed about what's going on in the agency so that they, in fact, have the information necessary to bring things to the Board for consideration that they may disagree with. And that's an important distinction.

Third, there is a whole host of scholarly literature on the optimal way to organize a regulatory agency. And I can sum up the conclusions of this literature by saying some regulatory agencies are headed by a single administrator. Some regulatory agencies are headed by a board. There is no clear superiority of one model over the other. There are certain strengths and weaknesses associated with single administrators. There

are certain strengths and weaknesses associated with boards.

And so, we cannot find any basis for saying we have a Board here, but we should operate as if we're a single administrator by delegating authority to the Chairman. And so, I think the issue comes down to what is the appropriate level of delegation and how will the Board function, not just in terms of the delegation. But how will the Board function as the leadership entity for the Finance Board?

And I would say the Federal Reserve Board presents a pretty good model because the issue is not just the authorities delegated to the chairman of Federal Reserve, but it's also what do the different governors of the Fed do as part of the board? And it's clear the chairman has certain day-to-day responsibilities delegated to him, various authorities.

But there is also a structure that assures full participation of the board in the activities of the Federal Reserve. And what that means is each member of the board of directors has a portfolio of responsibilities that they are responsible for on a day-

to-day basis, and they are responsible for bringing substantive matters relating to that portfolio to the board of governors for consideration.

If we're to create an analogy here, if we're to create a structure here like the Federal Reserve, you know, one of the Board of Directors would be responsible for the portfolio associated with supervision. One might be responsible for resource management. One might be responsible for legal matters. But the reality is to be true to us as a Board, we should be working as a Board.

Now, what is the cost of working as a Board as opposed to being a single decision-maker who takes responsibility, can make a quick decision? The cost is it's clearly less efficient. There is no question about that. I think there is no one in this room who would debate the issue of efficiency. But what is the benefit?

The benefit of a Board, and a Board fully engaged is that the leadership has the substantive input from a--really a Board of folks nominated by the President, confirmed by the Senate who bring a host of expertise and experience and insights in to help us collectively come to the best decisions.

When we had our first meeting, when I first met you, when you were nominated, I remember the first thing I talked to you about. And what I said to you was, "We have a major resource allocation problem at the Finance Board." And I said, and I compared it to what the U.S. Army was like in Vietnam during the height of the Vietnam War.

At the height of the Vietnam War, the U.S. Army had 550,000 troops on the ground, right? And out of that 550,000 group, they had 50,000 in combat and 500,000 in support. And the analogy I gave you was that it was a dragon with a tooth that was too small and a tail that was too long.

And I said basically we have the same problem at the Finance Board. We have too few people in the core functions of supervision, and we have too many people doing things that don't go directly to the safety and soundness of the System. Now, I don't know how you reached your decisions on how to reallocate--

CHAIRMAN KORSMO: Clearly, it was on the basis of your input.

DIRECTOR MENDELOWITZ: That is in the transcript. Okay? That was in the transcript. And I cite that as an example of the fact that I actually--I don't think I was the one responsible for what you finally decided to do, but I do take some comfort in at least maybe you thought about it because I raised it.

And I put that forward as an example of, you know, the best way that a board should be working. We should be working together to do better, to do the right things. It's clear the Congress did not intend us to be the most efficient solution. But then, again, democracy is not the most efficient solution. If you remember what everybody said about Mussolini was he made the trains run on time.

The Home Loan Bank System isn't the most efficient solution, because if it was, we wouldn't have 12 Banks, we'd have one Bank. And clearly, the Congress, the community that is involved with supporting the Home Loan Bank System understands that there's tradeoffs between efficiency and other benefits. And they think, everybody involved thinks it's better to get the other benefits than to get the last penny of efficiency.

And so, I think that that's, you know, what this, you know, resolution is about. The resolution, in fact, doesn't really affect any of the powers or authorities that you've exercised. All the resolution says is, "Hey, come talk to us. Get our input. Get our concurrence. Or if there's no unanimous concurrence, put it to a vote and see." If there's 5-0, 4-1, 3-2, whatever.

And I think that the resolution is put forward in the spirit of trying to do better. The resolution is put forward in the spirit of trying to, you know, have an outcome consistently on all issues like the one associated with reallocation of resources, making the tooth bigger and the tail smaller. And I think that the resolution is also put forward recognizing that the structure of the Finance Board has changed once the Managing Director was abolished.

And because the Managing Director position was abolished, we do need more direct Board involvement in things because the vehicle by which the other members of the Board were informed and kept on top of things and were able to exercise a role has been eliminated.

So, Mr. Chairman, I call on you, I call upon Commissioner Weicher, I call upon Director O'Neill to vote for this delegation not because it casts aspersion on how anyone did anything, but looking forward, it recognizes changes in the system and it recognizes an effort by all of us collectively to do better and to do the right thing.

CHAIRMAN KORSMO: Long pause?

DIRECTOR MENDELOWITZ: No. That's it.

CHAIRMAN KORSMO: As usual, Dr. Mendelowitz, you've argued very articulately on behalf of a position. It happens to be a position I can't agree with, but it's a position that you've argued well, nevertheless.

Let me make the point about--at least a couple of your points I think may be distinctions without a difference. Using my--borrowing a phrase from my good friend Joe Ventrone, with all due respect, the point about the Senate-confirmed chairs versus the presidentially appointed chairs, maybe there's a subtle difference in there. I don't necessarily see it.

I understand your point about the Managing Director, but I think it's also necessary to point out

that the Managing Director had no authority beyond that which the Chair and the Board provided him. And so, the fact that the Managing Director position no longer exists I don't think is a compelling argument for amending the delegation of authority under which, let me make the point again clearly, only administrative decisions are capable of being made.

And that goes to your third point, which I think is a compelling discussion of how, for example, the portfolio theory under which the Federal Reserve Board acts. I think that is something for us to consider in dealing with areas of policy concern.

Again, I don't pretend to understand what the state of play is at the Federal Reserve Board. But I think that even with the portfolio system that functions, the administrative versus the policy focuses remain with somebody, in this case, the chair.

I would hope that there would be a sense on the part of my colleagues on the Board that in terms of trying to develop, if not maintain--maybe I'd be overly ambitious in saying we'd be maintaining at this point--and maybe we're at the point of developing an increased

collegiality in the sense of participation and making decisions that deal with strictly policy issues.

I'm willing to concede that may be mistakes have been made in the past. But I'm hoping that all of my colleagues will acknowledge that on strictly policy issues, we've done a better job of late in assuring that every Board member has an opportunity for input.

Again, I would say that the reality is under the situation as it exists if that input is not--if it's felt that that input has not had the opportunity to be made, the opportunity does continue to exist to, with the acquiescence of one additional colleague, to bring that policy concern to this Board, which, in fact, is exactly what prompted this consideration of an amendment to the existing delegation of authority.

I appreciate your remarks, Dr. Mendelowitz. I think they were reasoned and compelling. I just don't think they necessarily go to this particular point and this particular resolution. And again, with all due respect.

Is there any other discussion?

DIRECTOR MENDELOWITZ: John, you missed a--

CHAIRMAN KORSMO: You did. You missed a fine, eloquent argument.

DIRECTOR WEICHER: I didn't miss all of it, Mr. Chairman.

CHAIRMAN KORSMO: The transcript will be available.

DIRECTOR WEICHER: Thank you. I think I know what the burden of the remarks were made.

CHAIRMAN KORSMO: Is there any other discussion? Is there any other discussion?

[No response.]

CHAIRMAN KORSMO: Hearing no other discussion, the question is on the resolution proposed by--excuse me--Director Leichter. The Secretary will please call the roll.

MS. BAKER: On the matter before the Board, Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: No.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: No.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: No.

The motion fails. Is there any other business to come before the Board?

DIRECTOR O'NEILL: Yes.

CHAIRMAN KORSMO: Director O'Neill?

DIRECTOR O'NEILL: Can you pass out--I have heard today the discussion and arguments against the current delegation, all of which seem to fall under the misconception that the Chairman wields all the power and the Board is currently without true authority. In my mind, nothing could be further from the truth.

The views opposing the current delegation have mischaracterized what the delegation is truly about. It is not an abdication of the Board's power, rather it currently stands as an exercise of the Board's supreme authority. The delegation provides clear lines of authority, accountability, and function. The power that the Board has via the current delegation has always been to instruct the Chair.

The delegation is an instruction from the Board to allow the Chair to carry out his or her responsibilities. The Chair is a servant of the Board. The Board is the only body that can create policy, and it is through the delegation that the Board as a body is charging the Chairman with the authorities, powers, and responsibilities necessary to effectively and efficiently manage the agency.

My problem with the delegation in the past, as I have already stated several times, has focused on a former Chairman's exceeding the scope of the delegation, not the delegation itself. In contrast, our current Chairman has verbally and in fact assured the Board numerous times that he understands that the rule-making and adjudicatory functions rest solely with the Board. He has not exceeded the scope of his--of the delegation.

Furthermore, having served under four Chairmen during the last seven and a half years, I can state that this Chairman is the first to treat the Board members inclusively, thus respecting the function of the delegation and the Board's proper supreme authority.

In contrast to past practice, now each Director has the opportunity to meet with the Chairman weekly should they care to. Now each Director has the benefit of attending regular housekeeping sessions, where updates are given on the agency's administrative matters. Now each Director can attend joint--regular joint briefings and be apprised of agency issues from agency staff. Now each Director has control over their own office budgets and has been given other additional responsibilities and control.

Therefore, to counter any misconceptions or mischaracterizations that have occurred, and because it's important for the record and as a reminder, and so everybody is clear on how this Board truly views the delegation, I would like to present a resolution, a sense of the Board regarding the delegation of authority to the Chairperson. In substance, it says what it states what is true and has always been true and further reveals the positive nature of the current delegation that the true power rests here with the Board.

Because I think all five of us agree that the Board is the supreme authority, it is my hope that the

sense of the Board could pass unanimously. Have we passed it out?

DIRECTOR LEICHTER: Can I ask you a question, please?

CHAIRMAN KORSMO: Was that a motion?

DIRECTOR O'NEILL: Yes. That was a motion.

CHAIRMAN KORSMO: Motion is on the floor.

Discussion?

DIRECTOR LEICHTER: Was this the first time that it was distributed to members of the Board?

DIRECTOR O'NEILL: Yes.

DIRECTOR LEICHTER: Was the first time anybody's seen it?

DIRECTOR O'NEILL: Yes.

DIRECTOR LEICHTER: Well, I would respectfully suggest that since it's the first time we've seen it that we be given some time to look at it, and why don't we put it on the agenda for next Board meeting?

DIRECTOR O'NEILL: It's only--

DIRECTOR MENDELOWITZ: I second that.

DIRECTOR O'NEILL: It's only a few whereas's and--

CHAIRMAN KORSMO: Was that a motion to table?

DIRECTOR MENDELOWITZ: Yes.

DIRECTOR LEICHTER: It was a motion to table.

CHAIRMAN KORSMO: A motion to table is nondebatable. Do you want to table it until the next meeting or to time indefinite?

DIRECTOR LEICHTER: Table it to the next meeting.

CHAIRMAN KORSMO: We have a motion to table. The Secretary will call the roll--until the next meeting, excuse me.

DIRECTOR LEICHTER: Yes.

MS. BAKER: On the matter before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: No.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: No.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: No.

So the discussion is now on the motion.

DIRECTOR MENDELOWITZ: Mr. Chairman? Mr. Chairman.

CHAIRMAN KORSMO: Excuse me.

DIRECTOR MENDELOWITZ: I got a point of personal privilege or whatever the rules are.

CHAIRMAN KORSMO: Sure.

DIRECTOR MENDELOWITZ: I know that Director Leichter's staff and your staff spent months negotiating over the wording for the revised delegation of authority that he submitted. Everybody had a very long period of time to look at it, to think about it, to comment on it, suggest changes. And I really think that, you know, the appropriate way to treat the Board on an issue like this is to give Board members the opportunity to really think and research and understand what's on the table.

I think it's totally inappropriate for Director O'Neill to put something on the table and expect the Board of Directors to vote on it without that kind of careful consideration that was given to all the Board members and their assistants with respect to the earlier

resolution. So I'd like to move that we table this until the March or April meeting.

DIRECTOR O'NEILL: Can I respond?

DIRECTOR MENDELOWITZ: No, no. No, Franz's resolution was table it for February. I'm moving we table it for a later date. I mean, it's not appropriate. Director O'Neill, we consented and voted on all the directors individually because you wanted it.

CHAIRMAN KORSMO: Dr. Mendelowitz, would it be appropriate to take a brief recess to consider this, or do you feel that you need more time?

DIRECTOR MENDELOWITZ: No, I need little bit of time. I may vote for this. I don't know. But I'm not going to vote for something I haven't had a chance to understand the implications of it and work through it. That's all.

DIRECTOR O'NEILL: But this is just cutting and pasting from things that everybody--

DIRECTOR LEICHTER: Excuse me. If I may, just on that point--

CHAIRMAN KORSMO: Director Leichter?

DIRECTOR LEICHTER: Tim, it just isn't. As language, I may go along, but I'm not sure if I understand when you go on to say in the "now therefore be it resolved" that this resolution does not empower the Chairperson to exercise unilaterally, and you say it does not dilute or restrict the prerogative of any Director.

I don't know whether you're stating this as a judgment on the current delegation, whether this is how the delegation should be interpreted. It may well be that all of us can agree on language on this, and that may move the whole process forward. But it--that's an awful way to do this, to put this on the table and expect people to vote on it.

I don't think we've ever followed that sort of a procedure, and therefore, if you want this seriously considered and people pay attention to it, it's an important resolution. You intended it to be a significant resolution, then we need time to look at it.

DIRECTOR O'NEILL: I think that if this Board passes this resolution, then that "therefore be it resolved" clause will be the sense of this Board. So it's very clear that what I'm doing is not empowering the

Chairperson and does not dilute any prerogatives of any Director. So if the five of us vote for this, that means that this is forever more this Board's view of the delegation.

DIRECTOR MENDELOWITZ: That's why we need time to research it and think about it.

CHAIRMAN KORSMO: Dr. Weicher?

DIRECTOR WEICHER: Thank you, Mr. Chairman. Mr. Chairman, I personally have no problem at all with voting on this. It seems to me we have just had an extended discussion that goes in substantial part directly to what this resolution is about.

I suggest that since we have a significant difference of opinion about appropriate procedure at this point that we recess for a few minutes and think about this instead of having this discussion back and forth, which could easily run on for quite a while. I'd suggest a 10-minute recess just to take a look.

CHAIRMAN KORSMO: How about a five-minute recess?

DIRECTOR WEICHER: That's fine with me.

CHAIRMAN KORSMO: Let's take a five-minute recess. We will reconvene at 10 minutes to 1:00.

[Recess.]

CHAIRMAN KORSMO: All right. I'll call the meeting back to order. I think we had pending because of language, Dr. Mendelowitz may have said I move we--you may have moved again to table, which motion I'm going to rule out of order as it's substantially the motion we had already considered.

But I will recognized for the point of making a motion Dr. Weicher.

DIRECTOR WEICHER: Thank you, Mr. Chairman. As I said before the break, I don't think this is a complicated resolution and, indeed, we have just been discussing it--during a discussion of the previous resolution have been discussing it in large part.

I also--but I recognize that if two of my colleagues feel that--or one, for that matter--feels that this is--they would like time to review this, I'd see no reason why we can't. I would therefore suggest that we reconsider Director Leichter's motion to postpone this to the February meeting and go forward with it at that time.

CHAIRMAN KORSMO: As Director Weicher was on the prevailing side on the motion to table, his motion to reconsider is in order, requiring a majority vote for passage at which point we would reconsider the motion to table. So I would ask the Secretary to please call the roll on the motion to reconsider the motion to table.

MS. BAKER: On the matter before the Board, Director Leichter, how do you vote?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

The motion to reconsider the motion to table has been agreed to. With that, the motion to table is now on the floor. As I recall, the motion was to table consideration of Director O'Neill's resolution expressing the sense of the Board regarding the delegation of

authority to the Chairperson until the next meeting of the Finance Board.

I don't think we discuss a motion to table. So the question is on that motion to table. The Secretary will please call the roll.

MS. BAKER: On the matter before the Board, Director Leichter?

DIRECTOR LEICHTER: Yes.

MS. BAKER: Director O'Neill?

DIRECTOR O'NEILL: Aye.

MS. BAKER: Director Mendelowitz?

DIRECTOR MENDELOWITZ: Yes.

MS. BAKER: Director Weicher?

DIRECTOR WEICHER: Aye.

MS. BAKER: Chairman Korsmo?

CHAIRMAN KORSMO: Yes.

The motion to table is approved. We will consider Director O'Neill's resolution regarding the sense of the Board at the next meeting of the Finance Board.

Before we adjourn, I should ask first is there any other business to come before the Board? Any other business?

[No response.]

CHAIRMAN KORSMO: Seeing none, in preparation for today's meeting, I pulled out the transcript of last meeting, and I just wanted to remind my colleagues of a couple of comments that I made in response to, frankly, to something that Dr. Weicher had said that I think is appropriate to this proceeding today as well.

I had said last meeting, "No doubt we will continue to face spirited debate, principle disagreement, just plain old hard work, and I think, frankly, without these debates, the public would be less well served by the members of this Board."

I still think that to be true, and so I thank you all for your debate on very important issues and appreciate your hard work in this regard.

So thank you. With that, the meeting is adjourned.

[Whereupon, at 12:56 p.m., the meeting was adjourned.]