

**FEDERAL HOUSING FINANCE BOARD (FHFB)****Statement of Regulatory and Deregulatory Priorities**

The Federal Housing Finance Board (Finance Board) is an independent agency that is statutorily charged with supervising and regulating the Nation's Federal Home Loan Bank (FHLBank) System. The FHLBank System consists of 12 regional FHLBanks that are each owned by their member financial institutions and that provide wholesale credit to members and certain nonmembers to be used for mortgage lending and related activities. The FHLBank System also includes the Office of Finance, which issues FHLBank System consolidated obligations. The Finance Board is required to prepare the following regulatory plan pursuant to section 4 of Executive Order 12866.

As always, the Finance Board's highest regulatory priority during the coming year is to ensure the safety and soundness of the FHLBank System. In addition, the Finance Board's primary regulatory priorities for 1996-97 are to ensure that the FHLBanks fulfill their statutory housing finance mission and to continue to reduce the regulatory burden on the FHLBanks by devolving authority over appropriate matters of corporate governance from the Finance Board to the FHLBanks themselves. To further these priorities, the Agency plans to carry out three significant regulatory actions, involving the FHLBank System's Affordable Housing Program (AHP), Community Investment Programs (CIPs), and Financial Management Policy (FMP), and to undertake several policy modifications and minor rulemakings over the course of the coming year. These prospective regulatory actions are in harmony with the regulatory philosophy and principles set forth by the President in Executive Order 12866 in that they either are necessary for the Agency to carry out effectively its statutory role as safety and soundness regulator of the FHLBank System, or are intended to establish guidelines under which various authorities may be devolved from the Agency to the FHLBanks.

In November 1996, the Finance Board published a second notice of proposed rulemaking (NPRM) to amend its AHP regulation to address issues that have arisen because of the success of the AHP, under which FHLBank member institutions fund the construction and purchase of housing for low- and moderate-income individuals and

families. Although the Finance Board published the original NPRM in January of 1994, the approval of a final rule was delayed by an 18-month period during which the Agency lacked a quorum of its Board of Directors. Since regaining a quorum in June of 1995, the Finance Board has decided to publish for comment a second NPRM that contains a less detailed and restrictive AHP regulation than the version published in 1994.

This initiative, which is discussed in more detail below (RIN 3069-AA28), will encourage the FHLBanks to fulfill their statutory mission and will complete the major portion of the Agency's effort to devolve to the FHLBanks authority over those matters of corporate governance that may be devolved under the existing statutory scheme. As part of a longer-term effort, the Finance Board is studying the statutorily-authorized CIPs in an attempt to create a regulation that would expand the use of these community development programs by the FHLBanks. This initiative also is discussed in detail below (RIN 3069-AA05).

The Finance Board also plans to revise its FMP (RIN 3069-AA50), which governs permissible investments of the FHLBanks, and to promulgate the FMP as a regulation. As part of its safety and soundness responsibilities, the Finance Board intends to amend the FMP to more thoroughly address the control of interest rate risk assumed by the FHLBanks. As part of its effort to ensure that the FHLBanks fulfill their statutory housing finance mission, the Finance Board plans to modify the FMP to encourage the FHLBanks to refocus their balance sheets away from investments that are not related to this mission to a combination of advances (i.e., credit extended to members) and other assets that are mission-related. In this vein, the Finance Board also is actively encouraging legislation that would change the FHLBanks' annual obligations to the Resolution Funding Corporation from a fixed dollar amount to a percentage of earnings, thereby reducing the incentive for FHLBanks to invest in higher income, but less mission-related, instruments.

In addition to undertaking these significant regulatory actions, the Finance Board anticipates that it will continue to devolve to the FHLBanks, through nonsignificant regulations, more minor matters of corporate governance during the coming year and beyond. For example, the Agency intends to promulgate a final rule

transferring to the FHLBanks specific responsibilities for selection and compensation of FHLBank officers and employees. Especially with respect to items that need Finance Board approval under the statute, the Finance Board intends to determine those functions for which appropriate regulatory standards can be embodied in a regulation and to address these issues in a step-by-step fashion.

Finally, during the coming year, the Finance Board expects to adopt standard policies and procedures to be followed by examiners during the annual regulatory examinations of the FHLBanks and for resolving disputes that arise during these examinations by bringing such issues to the Agency's Board of Directors for resolution.

**FHFB****PROPOSED RULE STAGE****163. COMMUNITY INVESTMENT PROGRAM****Priority:**

Economically Significant. Major status under 5 USC 801 is undetermined.

**Legal Authority:**

12 USC 1422a; 12 USC 1422b; 12 USC 1430(i)

**CFR Citation:**

12 CFR 961

**Legal Deadline:**

None

**Abstract:**

The Finance Board is contemplating proposing a regulation or developing guidelines that would address operational aspects of the community investment programs (CIPs) of the FHLBanks under section 10 of the Federal Home Loan Bank Act (Bank Act).

**Statement of Need:**

The CIPs have operated for 7 years without any clarifying regulations. During this time, operational issues have arisen. A regulation or guidelines may be necessary to address these issues in order to establish a more specific framework for the operation of the CIPs and to expand usage of the programs.

**Summary of the Legal Basis:**

Section 2B(a)(1) of the Bank Act authorizes the Finance Board to

promulgate regulations necessary to carry out the provisions of the Act. Section 10 of the Bank Act authorizes the FHLBanks to establish CIPs.

**Alternatives:**

Because consideration of additional CIP guidance is in a very preliminary stage, the Finance Board has not yet analyzed the alternative approaches to the issues expected to be addressed in this initiative.

**Anticipated Costs and Benefits:**

Because the Finance Board has not yet analyzed the alternative approaches to the issues expected to be addressed in the CIP regulation, the Finance Board is not yet able to identify the expected costs and benefits of any such CIP regulation.

**Risks:**

The CIP regulation will not address issues of financial risk to the FHLBanks. The advances made by the FHLBanks through their CIPs, like all FHLBank advances, are governed by the Finance Board's Advances regulation, which addresses the safety and soundness issues involved in making advances. Because advances made through the CIPs are overcollateralized, there is a low magnitude of risk of loss to the FHLBanks in making such advances.

**Timetable:**

Action	Date	FR Cite
NPRM	09/00/97	

**Small Entities Affected:**

None

**Government Levels Affected:**

None

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**RIN:** 3069-AA05

**FHFB**

**164. AFFORDABLE HOUSING PROGRAM**

**Priority:**

Economically Significant. Major status under 5 USC 801 is undetermined.

**Reinventing Government:**

This rulemaking is part of the Reinventing Government effort. It will revise text in the CFR to reduce burden or duplication, or streamline requirements.

**Legal Authority:**

12 USC 1422b(a)(1); 12 USC 1430(j)

**CFR Citation:**

12 CFR 960

**Legal Deadline:**

None

**Abstract:**

The Federal Housing Finance Board (Finance Board) issued a second proposed rule revising its regulation governing the Affordable Housing Program (AHP) in order to simplify and clarify the AHP's requirements for the Federal Home Loan Banks (FHLBanks) and their members.

**Statement of Need:**

The Finance Board is revising its AHP Regulation in order to address operational issues that have arisen during the 7 years the program has been in existence. The proposed AHP amendments will help enhance the AHP's compatibility with various State and Federal housing programs that provide funds in conjunction with AHP funds. In addition, the amendments would make the AHP more responsive to local low-income housing needs in each of the 12 FHLBank districts and increase efficiency in administration of the program.

**Summary of the Legal Basis:**

Section 10(j) of the Federal Home Loan Bank Act requires the Finance Board to promulgate regulations governing the AHP.

**Alternatives:**

During the development of the proposed AHP amendments, the Finance Board considered various alternative approaches to dealing with the operational issues that have arisen over the 7 years of the AHP's existence. In addition, the Finance Board will consider all alternatives suggested by the public during the notice-and-comment process.

**Anticipated Costs and Benefits:**

At this time, it is not possible to quantify the expected costs and benefits of the revised AHP regulation. In general, the Finance Board expects the revised AHP regulation to reduce the FHLBanks' administrative costs of operating the AHP.

**Risks:**

The revised AHP regulation does not address issues of financial risk to the FHLBanks. The advances made by the FHLBanks through the AHP, like all FHLBank advances, are governed by the Finance Board's Advances regulation, which addresses the safety and soundness issues involved in making advances. Because advances made through the AHP are overcollateralized, there is a low magnitude of risk of loss to the FHLBanks in making such advances.

**Timetable:**

Action	Date	FR Cite
NPRM	01/10/94	59 FR 1323
NPRM Comment Period End	03/11/94	
Second NPRM	11/00/96	
Second NPRM Comment Period End	01/00/97	
Final Action	02/00/97	
Final Action Effective	03/00/97	

**Small Entities Affected:**

None

**Government Levels Affected:**

None

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**RIN:** 3069-AA28

**FHFB**

**165. FEDERAL HOME LOAN BANK FINANCIAL MANAGEMENT**

**Priority:**

Other Significant. Major status under 5 USC 801 is undetermined.

**Legal Authority:**

12 USC 1422b(a); 12 USC 1431; 12 USC 1436(a)

**CFR Citation:**

12 CFR Not yet determined

**Legal Deadline:**

None

**Abstract:**

The Finance Board will issue a proposed rule that revises its FHLBank Financial Management Policy (FMP), which governs permissible investments of the FHLBanks, and codifies the policy as a regulation.

**Statement of Need:**

In December 1993, the Finance Board adopted the FMP to provide guidance to and establish limits for the FHLBanks in their implementation of financial programs and strategies. The Finance Board will be amending the policy to more thoroughly address FHLBanks' assumption of interest rate risk and to direct FHLBank funds toward investments that are more closely related to their housing finance mission. For the first time, the Finance Board will be promulgating the FMP as a regulation to make the FMP more accessible to the public.

**Summary of the Legal Basis:**

Sections 11(h) and 16(a) of the Bank Act authorize the FHLBanks to make certain types of investments. Section 11 generally authorizes the FHLBanks to seek various sources of funding for their operations. Section 2B(a) of the Bank Act authorizes the Finance Board to supervise the FHLBanks and to promulgate such regulations as are necessary to carry out the provisions of the Act.

**Alternatives:**

The Finance Board is considering various alternative methods for

controlling FHLBank interest rate risk and encouraging investment in mission-related assets. In addition, the agency will consider all alternatives suggested by the public during the notice and comment process.

**Anticipated Costs and Benefits:**

The Finance Board anticipates that the new FMP provisions may result in slightly lower investment income for the FHLBanks to the extent that the interest rate risk controls and mission-related investment requirements may narrow the range of high-income assets in which the FHLBanks may invest. However, these costs will be counterbalanced by FHLBanks' assumption of less interest rate risk and by the FHLBanks' greater support for the mortgage markets. The regulation would not otherwise impose any direct financial costs upon the FHLBanks or their member institutions.

**Risks:**

Although FHLBank interest rate risk is already well-managed under the current FMP, the proposed regulation will attempt to further minimize such risk by incorporating state-of-the-art models and methods for monitoring and controlling the risk. The Finance Board

is considering whether there are any circumstances under which there should be reserve requirements against interest rate risk exposure. Because the regulation is in its preliminary stages of preparation, the agency cannot now quantify the amount by which such risk will be reduced.

**Timetable:**

Action	Date	FR Cite
NPRM	01/00/97	
NPRM Comment Period End	03/00/97	

**Small Entities Affected:**

None

**Government Levels Affected:**

None

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