

106TH CONGRESS
1ST SESSION

H. R. 822

To modernize and improve the Federal Home Loan Bank System, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 24, 1999

Mr. BAKER (for himself and Mr. KANJORSKI) introduced the following bill; which was referred to the Committee on Banking and Financial Services

A BILL

To modernize and improve the Federal Home Loan Bank System, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Federal Home Loan Bank System Modernization Act of
6 1999”.

7 (b) TABLE OF CONTENTS.—The table of contents for
8 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Definitions.
- Sec. 3. Federal Home Loan Banks.
- Sec. 4. Savings association membership.
- Sec. 5. Advances to members; collateral.

Sec. 6. Eligibility criteria.
 Sec. 7. Qualified thrift lender status.
 Sec. 8. Federal Home Loan Bank Finance Corporation.
 Sec. 9. Management of Banks.
 Sec. 10. Powers and duties of Banks.
 Sec. 11. Mergers and consolidations of Federal Home Loan Banks.
 Sec. 12. Other amendments relating to Bank operation and administration.
 Sec. 13. Resolution Funding Corporation.
 Sec. 14. Capital structure of Federal Home Loan Banks.

1 **SEC. 2. DEFINITIONS.**

2 Section 2 of the Federal Home Loan Bank Act (12
 3 U.S.C. 1422) is amended—

4 (1) in paragraph (1), by striking “term ‘Board’
 5 means” and inserting “terms ‘Finance Board’ and
 6 ‘Board’ mean”;

7 (2) by striking paragraph (3) and inserting the
 8 following:

9 “(3) STATE.—The term ‘State’, in addition to
 10 the States of the United States, includes the District
 11 of Columbia, Guam, Puerto Rico, the United States
 12 Virgin Islands, American Samoa, and the Common-
 13 wealth of the Northern Mariana Islands.”; and

14 (3) by adding at the end the following new
 15 paragraph:

16 “(13) COMMUNITY FINANCIAL INSTITUTION.—

17 “(A) IN GENERAL.—The term ‘community
 18 financial institution’ means a member—

19 “(i) the deposits of which are insured
 20 under the Federal Deposit Insurance Act;
 21 and

1 “(ii) that has, as of the date of the
2 transaction at issue, less than
3 \$500,000,000 in average total assets,
4 based on an average of total assets over
5 the 3 years preceding that date.

6 “(B) ADJUSTMENTS.—The \$500,000,000
7 limit referred to in subparagraph (A)(ii) shall
8 be adjusted annually by the Finance Board,
9 based on the annual percentage increase, if any,
10 in the Consumer Price Index for all urban con-
11 sumers, as published by the Department of
12 Labor.”.

13 **SEC. 3. FEDERAL HOME LOAN BANKS.**

14 Section 3 of the Federal Home Loan Bank Act (12
15 U.S.C. 1423) is amended in the first sentence, by striking
16 “the continental United States” and all that follows
17 through “eight” and inserting “the States into not fewer
18 than 1”.

19 **SEC. 4. SAVINGS ASSOCIATION MEMBERSHIP.**

20 Section 5(f) of the Home Owners’ Loan Act (12
21 U.S.C. 1464(f)) is amended to read as follows:

22 “(f) FEDERAL HOME LOAN BANK MEMBERSHIP.—
23 On and after January 1, 2000, a Federal savings associa-
24 tion may become a member of the Federal Home Loan
25 Bank System, and shall qualify for such membership in

1 the manner provided by the Federal Home Loan Bank
2 Act.”.

3 **SEC. 5. ADVANCES TO MEMBERS; COLLATERAL.**

4 (a) IN GENERAL.—Section 10(a) of the Federal
5 Home Loan Bank Act (12 U.S.C. 1430(a)) is amended—

6 (1) by redesignating paragraphs (1) through
7 (4) as subparagraphs (A) through (D), respectively,
8 and indenting appropriately;

9 (2) by striking “(a) Each” and inserting the
10 following:

11 “(a) IN GENERAL.—

12 “(1) ALL ADVANCES.—Each”;

13 (3) by striking the second sentence and insert-
14 ing the following:

15 “(2) PURPOSES OF ADVANCES.—A long-term
16 advance may only be made for the purposes of—

17 “(A) providing funds to any member for
18 residential housing finance; and

19 “(B) providing funds to any community fi-
20 nancial institution for small businesses, agricul-
21 tural, rural development, or low-income commu-
22 nity development lending.”;

23 (4) by striking “A Bank” and inserting the fol-
24 lowing:

25 “(3) COLLATERAL.—A Bank”;

1 (5) in paragraph (3) (as so designated by para-
2 graph (4) of this subsection)—

3 (A) in subparagraph (C) (as so redesign-
4 nated by paragraph (1) of this subsection) by
5 striking “Deposits” and inserting “Cash or de-
6 posits”;

7 (B) in subparagraph (D) (as so redesign-
8 nated by paragraph (1) of this subsection), by
9 striking the second sentence; and

10 (C) by inserting after subparagraph (D)
11 (as so redesignated by paragraph (1) of this
12 subsection) the following new subparagraph:

13 “(E) Secured loans for small business, ag-
14 riculture, rural development, or low-income
15 community development, or securities represent-
16 ing a whole interest in such secured loans, in
17 the case of any community financial institu-
18 tion.”;

19 (6) in paragraph (5)—

20 (A) in the second sentence, by striking
21 “and the Board”;

22 (B) in the third sentence, by striking
23 “Board” and inserting “Federal Home Loan
24 Bank”; and

1 (C) by striking “(5) Paragraphs (1)
2 through (4)” and inserting the following:

3 “(4) ADDITIONAL BANK AUTHORITY.—Subpara-
4 graphs (A) through (E) of paragraph (3)” and
5 (7) by adding at the end the following:

6 “(5) REVIEW OF CERTAIN COLLATERAL STAND-
7 ARDS.—The Board may review the collateral stand-
8 ards applicable to each Federal Home Loan Bank
9 for the classes of collateral described in paragraph
10 (3)(E), and may, if necessary for safety and sound-
11 ness purposes, require an increase in the collateral
12 standards for any or all of those classes of collateral.

13 “(6) DEFINITIONS.—For purposes of this
14 subsection—

15 “(A) the terms ‘small business’, ‘agri-
16 culture’, ‘rural development’, and ‘low-income
17 community development’ shall have the mean-
18 ings given those terms by rule or regulation of
19 the Finance Board; and

20 “(B) the term ‘loans for small business’
21 may include a loan guaranteed by the Small
22 Business Administration under section 7(a) of
23 the Small Business Act.”.

1 (b) CLERICAL AMENDMENT.—The section heading
 2 for section 10 of the Federal Home Loan Bank Act (12
 3 U.S.C. 1430) is amended to read as follows:

4 **“SEC. 10. ADVANCES TO MEMBERS.”.**

5 **SEC. 6. ELIGIBILITY CRITERIA.**

6 Section 4(a) of the Federal Home Loan Bank Act
 7 (12 U.S.C. 1424(a)) is amended—

8 (1) in paragraph (2)(A), by inserting, “(other
 9 than a community financial institution)” after “in-
 10 stitution”; and

11 (2) by adding at the end the following new
 12 paragraph:

13 “(3) LIMITED EXEMPTION FOR COMMUNITY FI-
 14 NANCIAL INSTITUTIONS.—A community financial in-
 15 stitution that otherwise meets the requirements of
 16 paragraph (2) may become a member without regard
 17 to the percentage of its total assets that is rep-
 18 resented by residential mortgage loans, as described
 19 in subparagraph (A) of paragraph (2).”.

20 **SEC. 7. QUALIFIED THRIFT LENDER STATUS.**

21 (a) FEDERAL HOME LOAN BANK ACT.—Section
 22 10(e) of the Federal Home Loan Bank Act (12 U.S.C.
 23 1430(e)), as added by section 105 of Public Law 100–
 24 86 and subsequently amended (relating to qualified thrift
 25 lender status) is amended—

1 (1) by striking paragraphs (1) and (3);

2 (2) in paragraph (2), by striking the first sen-
3 tence;

4 (3) in paragraph (4), by striking “Paragraphs
5 (1) and (2) of this subsection do not” and inserting
6 “Paragraph (1) does not”;

7 (4) in paragraph (5), by striking subparagraph
8 (C); and

9 (5) by redesignating paragraphs (2), (4), and
10 (5) as paragraphs (1), (2), and (3), respectively.

11 (b) HOME OWNERS’ LOAN ACT.—Section
12 10(m)(3)(B) of the Home Owners’ Loan Act (12 U.S.C.
13 1467a(m)(3)(B)) is amended—

14 (1) in clause (i), by striking subclause (III) and
15 by redesignating subclause (IV) as subclause (III);
16 and

17 (2) by amending clause (ii) to read as follows:

18 “(ii) ADDITIONAL RESTRICTIONS EF-
19 FECTIVE AFTER THREE YEARS.—Begin-
20 ning 3 years after the date on which a sav-
21 ings association should have become or
22 ceases to be a qualified thrift lender, the
23 savings association shall not retain any in-
24 vestment (including an investment in any
25 subsidiary) or engage, directly or indi-

rectly, in any activity unless that investment or activity would be permissible for the savings association if it were a national bank, and is also permissible for the savings association as a savings association.”.

SEC. 8. FEDERAL HOME LOAN BANK FINANCE CORPORATION.

(a) ESTABLISHMENT OF FINANCE CORPORATION.—
The Federal Home Loan Bank Act (12 U.S.C. 1421 et seq.) is amended by inserting after section 4 the following new section:

“SEC. 5. THE FEDERAL HOME LOAN BANK FINANCE CORPORATION.

“(a) ESTABLISHMENT.—

“(1) IN GENERAL.—There is established the Federal Home Loan Bank Finance Corporation (hereafter in this section referred to as the ‘Corporation’), which shall be a federally chartered instrumentality of the United States.

“(2) PURPOSES.—The purposes of the Corporation shall be—

“(A) to issue and service the notes, bonds, debentures, and other debt obligations of the Federal Home Loan Banks in accordance with this Act; and

1 “(B) to perform or cause to be performed
2 all other necessary and proper functions in rela-
3 tion to the issuance and servicing of obligations
4 referred to in subparagraph (A), as fiscal agent
5 on behalf of the Federal Home Loan Banks,
6 and any functions performed by the Office of
7 Finance on behalf of the Financing Corporation
8 (established pursuant to section 21) and the
9 Resolution Funding Corporation (established
10 pursuant to section 21B) before the date of en-
11 actment of the Federal Home Loan Bank Sys-
12 tem Modernization Act of 1999.

13 “(b) POWERS.—Subject to the other provisions of
14 this Act and to such regulations as the Board may pre-
15 scribe, the Corporation shall have the power—

16 “(1) to issue voting capital stock to the Federal
17 Home Loan Banks;

18 “(2) to issue and service Federal Home Loan
19 Bank notes, bonds, debentures, and other obligations
20 pursuant to section 11 on behalf of the Federal
21 Home Loan Banks;

22 “(3) to determine the amount, maturities, rate
23 of interest, terms, and other conditions of Federal
24 Home Loan Bank notes, bonds, debentures, and
25 other obligations;

1 “(4) to adopt, alter, and use a corporate seal;

2 “(5) to make contracts;

3 “(6) to sue and be sued, by and through its
4 own attorneys, in the corporate capacity of the Cor-
5 poration, and to complain and defend in any action
6 brought by or against the Corporation in any court
7 of competent jurisdiction;

8 “(7) to determine the terms and conditions
9 under which the Corporation shall indemnify its di-
10 rectors, officers, employees, and agents; and

11 “(8) to exercise such incidental powers not in-
12 consistent with the provisions of this Act as are nec-
13 essary or advisable to carry out this Act.

14 “(c) BOARD OF DIRECTORS.—

15 “(1) ESTABLISHMENT.—The management of
16 the Corporation shall be vested in a board of direc-
17 tors composed of directors elected by the Federal
18 Home Loan Banks in accordance with paragraph
19 (2).

20 “(2) COMPOSITION OF BOARD.—Each Bank
21 shall annually elect 1 individual who, as of the time
22 of the election, is an officer or director of the Bank
23 to serve as a member of the board of directors of the
24 Corporation.

1 “(3) DUTIES.—The board of directors shall ad-
2 minister the affairs of the Corporation in accordance
3 with this Act.

4 “(4) TERMS.—

5 “(A) IN GENERAL.—Each member of the
6 board of directors of the Corporation shall be
7 elected for a term of 1 year, and shall serve at
8 the pleasure of the board of directors of the
9 Federal Home Loan Bank that elected that
10 member.

11 “(B) INTERIM APPOINTMENTS.—Any di-
12 rector elected to fill a vacancy on the board of
13 directors of the Corporation occurring before
14 the expiration of the term for which the prede-
15 cessor of that director was elected shall be
16 elected only for the remainder of the unexpired
17 term.

18 “(C) CONTINUATION OF SERVICE.—Each
19 director may continue to serve after the expira-
20 tion of the term to which that director was
21 elected until a successor has been elected and
22 qualified.

23 “(5) POWERS.—The board of directors shall ex-
24 ercise such powers as may be necessary and appro-

1 piate to carry out this section, including the
2 power—

3 “(A) to review, adopt, and monitor the an-
4 nual budget of the Corporation;

5 “(B) to set policies for the Corporation;

6 “(C) to impose assessments on the Federal
7 Home Loan Banks to fund the expenditures of
8 the Corporation; and

9 “(D) to appoint, establish the duties of,
10 and compensate the employees of the Corpora-
11 tion, and to dismiss at will the employees of the
12 Corporation.

13 “(6) PAY.—The members of the board of direc-
14 tors shall serve without additional compensation, but
15 shall be reimbursed for reasonable expenses of trav-
16 el, lodging, and subsistence incurred in performing
17 the business of the Corporation.

18 “(7) QUORUM REQUIREMENT.—No business
19 may be conducted by the board of directors unless
20 a quorum of the members of the board of directors
21 is present in person or by telephone, or through ac-
22 tion taken by unanimous written consent executed
23 by the members of the board of directors.

1 “(8) APPOINTMENT OF OFFICERS AND ADOP-
2 TIONS OF RULES OF PROCEDURE.—The board of di-
3 rectors shall—

4 “(A) select, from among the members of
5 the board, a Chairperson and a Vice Chair-
6 person; and

7 “(B) adopt bylaws and other rules of pro-
8 cedure for actions before the board of directors,
9 including the establishment of 1 or more com-
10 mittees to take action on behalf of the board of
11 directors and the delegation of powers of the
12 board of directors to any such committee or of-
13 ficer of the Corporation.

14 “(d) STOCK.—

15 “(1) ISSUANCE OF EQUAL AMOUNT TO EACH
16 BANK.—The Corporation shall issue to each Bank
17 100 shares of voting capital stock, with a par value
18 of \$100 per share.

19 “(2) RESTRICTED TRANSFERABILITY.—Stock
20 issued under paragraph (1) may be owned and held
21 only by the Federal Home Loan Banks.

22 “(3) MERGER.—Stock issued under paragraph
23 (1) shall be redeemable or transferable at par in the
24 event of a merger or consolidation pursuant to sec-
25 tion 26.

1 “(4) PAYMENT UPON ISSUANCE.—Upon
2 issuance of any share of stock under this subsection
3 to any Federal Home Loan Bank, the Bank shall
4 pay to the Corporation the total amount due for
5 such stock.

6 “(5) DISTRIBUTION REQUIREMENT.—The total
7 amount of outstanding stock of the Corporation
8 shall, at all times, be distributed equally among all
9 of the Federal Home Loan Banks, and the board of
10 directors of the Corporation shall adopt procedures
11 from time to time to implement this paragraph.

12 “(e) STATUS.—Except to the extent that it would
13 conflict with any provision of this section, or that the con-
14 text of this Act otherwise requires, the Corporation shall
15 be treated as a Federal Home Loan Bank for purposes
16 of any law.

17 “(f) JURISDICTION; REMOVAL POWER.—

18 “(1) IN GENERAL.—Notwithstanding any other
19 provision of law, any civil action or proceeding to
20 which the Corporation is a party shall be deemed to
21 arise under the laws of the United States.

22 “(2) VENUE.—The United States District
23 Court for the District of Columbia shall have exclu-
24 sive jurisdiction over any action to which the Cor-
25 poration is a party.

1 “(3) REMOVAL.—The Corporation may, without
2 bond or security, remove any action or proceeding to
3 which the Corporation is or becomes a party from a
4 State court to the United States District Court for
5 the District of Columbia.”.

6 (b) TRANSFER OF FUNCTIONS.—The functions of the
7 Office of Finance of the Federal Home Loan Banks (here-
8 after in this section referred to as the “Office of Finance”)
9 shall be transferred to the Federal Home Loan Bank Fi-
10 nance Corporation established under section 5 of the Fed-
11 eral Home Loan Bank Act, as added by this section, (here-
12 after in this section referred to as the “Corporation”) be-
13 fore the end of the 6-month period beginning on the date
14 of enactment of this Act.

15 (c) SAVINGS PROVISION.—The transfer of functions
16 from the Office of Finance to the Corporation in accord-
17 ance with this section shall not affect the validity of any
18 right, duty, contract, or obligation of the Office of Finance
19 (with respect to any person or entity) that existed on the
20 day before the effective date of the transfer of functions.

21 (d) TECHNICAL AMENDMENTS.—The Federal Home
22 Loan Bank Act (12 U.S.C. 1421 et seq.) is amended—

23 (1) in section 2B(a)(2), by striking “or joint of-
24 fice” each place that term appears;

25 (2) in section 2B(b)(1)—

1 (A) in paragraph (1), by striking “em-
 2 ployee,” and all that follows through “11(b)”
 3 and inserting “employee or administrative unit
 4 of any Bank of the Federal Home Loan Bank
 5 System.”;

6 (B) by striking paragraph (2); and

7 (C) by striking “(1) BOARD STAFF.—”;

8 (3) in section 21(b)(1), by striking subpara-
 9 graph (A) and inserting the following:

10 “(A) The Chairperson of the Federal
 11 Home Loan Bank Finance Corporation estab-
 12 lished under section 5.”; and

13 (4) in section 21B(c)(1), by striking subpara-
 14 graph (A) and inserting the following:

15 “(A) The Chairperson of the Federal
 16 Home Loan Bank Finance Corporation estab-
 17 lished under section 5.”.

18 **SEC. 9. MANAGEMENT OF BANKS.**

19 (a) BOARD OF DIRECTORS.—Section 7 of the Federal
 20 Home Loan Bank Act (12 U.S.C. 1427) is amended—

21 (1) in subsection (a)—

22 (A) by striking “(a) The management”
 23 and inserting the following:

24 “(a) BOARD OF DIRECTORS.—

1 “(1) NUMBER AND CLASSES OF DIRECTORS.—

2 The management”; and

3 (B) by adding at the end the following:

4 “(2) APPROVAL OF ALTERNATIVE STRUC-
 5 TURE.—Subject to the approval of the Finance
 6 Board, a Federal Home Loan Bank may include as
 7 part of its capital structure plan submitted under
 8 section 6, or any modification thereto, provisions es-
 9 tablishing a structure for its elective and appointive
 10 directors other than as provided for in this section.”;
 11 and

12 (2) in subsection (d)—

13 (A) by striking “(d) The term” and insert-
 14 ing the following:

15 “(d) TERMS OF OFFICE.—The term”; and

16 (B) by striking “shall be two years”.

17 (b) COMPENSATION.—Section 7(i) of the Federal
 18 Home Loan Bank Act (12 U.S.C. 1427(i)) is amended by
 19 striking “, subject to the approval of the board”.

20 (c) OBLIGATIONS AS LAWFUL INVESTMENTS.—Sec-
 21 tion 15 of the Federal Home Loan Bank Act (12 U.S.C.
 22 1435) is amended by striking “with the approval of the
 23 Board”.

1 **SEC. 10. POWERS AND DUTIES OF BANKS.**

2 (a) BONDS AND DEBENTURES.—Section 11(a) of the
3 Federal Home Loan Bank Act (12 U.S.C. 1431(a)) is
4 amended—

5 (1) by inserting “through the Federal Home
6 Loan Bank Finance Corporation” after “to issue”;
7 and

8 (2) by striking “Board may approve” and in-
9 serting “board of directors of the Bank may ap-
10 prove”.

11 (b) ISSUANCE OF CONSOLIDATED OBLIGATIONS.—
12 Section 11(b) of the Federal Home Loan Bank Act (12
13 U.S.C. 1431(b)) is amended to read as follows:

14 “(b) ISSUANCE OF FEDERAL HOME LOAN BANK
15 CONSOLIDATED OBLIGATIONS.—

16 “(1) IN GENERAL.—The Federal Home Loan
17 Bank Finance Corporation may issue consolidated
18 Federal Home Loan Bank bonds and other consoli-
19 dated obligations on behalf of the Banks.

20 “(2) JOINT AND SEVERAL OBLIGATION; TERMS
21 AND CONDITIONS.—Consolidated obligations issued
22 by the Federal Home Loan Bank Finance Corpora-
23 tion under paragraph (1) shall—

24 “(A) be the joint and several obligations of
25 all of the Federal Home Loan Banks; and

1 “(B) shall be issued upon such terms and
 2 conditions as shall be established by the Federal
 3 Home Loan Bank Finance Corporation, subject
 4 to such rules and regulations as the Finance
 5 Board may prescribe.”.

6 (c) REDISCOUNTING OF NOTES.—Section 11(f) of the
 7 Federal Home Loan Bank Act (12 U.S.C. 1431(f)) is
 8 amended by striking “permit, to require,” and inserting
 9 “permit or to require”.

10 (d) TREASURY PURCHASE OF BANK OBLIGATIONS.—
 11 Section 11(i) of the Federal Home Loan Bank Act (12
 12 U.S.C. 1431(i)) is amended by striking the second undes-
 13 ignated paragraph.

14 (e) CONFORMING AMENDMENTS.—Section 11 of the
 15 Federal Home Loan Bank Act (12 U.S.C. 1431) is
 16 amended—

17 (1) by striking subsection (c); and

18 (2) by redesignating subsections (d) through (k)
 19 as subsections (c) through (j), respectively.

20 **SEC. 11. MERGERS AND CONSOLIDATIONS OF FEDERAL**
 21 **HOME LOAN BANKS.**

22 Section 26 of the Federal Home Loan Bank Act (12
 23 U.S.C. 1446) is amended to read as follows:

24 **“SEC. 26. MERGERS AND CONSOLIDATIONS.**

25 **“(a) IN GENERAL.—**

1 “(1) FINANCE BOARD AUTHORITY.—Whenever
2 the Finance Board determines it to be necessary to
3 the discharge of its obligations under section
4 2A(a)(3)(A), and in accordance with such rules, reg-
5 ulations, and orders as the Finance Board may pre-
6 scribe, the Finance Board may order that a Federal
7 Home Loan Bank be liquidated or reorganized, and
8 its stock paid off and retired in whole or in part in
9 connection therewith, after paying or making provi-
10 sion for the payment of the liabilities of the Federal
11 Home Loan Bank.

12 “(2) ACQUISITION BY OTHER BANKS.—In the
13 case of a liquidation or reorganization under para-
14 graph (1), any other Federal Home Loan Bank may,
15 with the approval of the Finance Board, acquire the
16 assets of any such liquidated or reorganized Bank,
17 and assume the liabilities thereof, in whole or in
18 part.

19 “(b) VOLUNTARY MERGERS.—Nothing in this section
20 shall preclude voluntary mergers, combinations, or consoli-
21 dation by or among the Federal Home Loan Banks pursu-
22 ant to such regulations as the Finance Board may pre-
23 scribe.

24 “(c) NUMBERS OF DIRECTORS OF RESULTING
25 BANK.—

1 “(1) IN GENERAL.—Notwithstanding section 7,
2 any Bank resulting from a merger, combination, or
3 consolidation pursuant to this section may have,
4 with the approval of the Finance Board, elected and
5 appointed directors in a number that is equal to or
6 less than the total number of the directors of all of
7 the Banks that participated in the transaction (as
8 determined immediately before the transaction).

9 “(2) FULFILLMENT OF UNEXPIRED TERMS.—
10 Consistent with paragraph (1), a director of any
11 Bank involved in a transaction referred to in para-
12 graph (1) may continue to serve on the board of di-
13 rectors of the resulting Bank during the unexpired
14 portion of that director’s current term, if such con-
15 tinuation of service is provided for under the terms
16 of the merger, combination, or consolidation trans-
17 action, and whether or not that director remains
18 qualified after the transaction to fill a directorship.

19 “(d) NUMBER OF APPOINTED DIRECTORS OF RE-
20 SULTING BANK.—The number of appointed directors on
21 the board of directors of a Bank resulting from a merger,
22 combination, or consolidation pursuant to this section
23 shall not exceed three-fourths the number of elected direc-
24 tors on the board of directors of that Bank.

1 “(e) ADJUSTMENT OF DISTRICT BOUNDARIES.—Not
 2 later than 30 days after consummation of any merger,
 3 combination, or consolidation of 2 or more Federal Home
 4 Loan Banks, the Finance Board shall adjust the districts
 5 established under section 3 to reflect such merger, com-
 6 bination, or consolidation.

7 “(f) SUBSIDIARIES; HOLDING COMPANIES.—

8 “(1) AUTHORITY TO ESTABLISH.—Any 1 or
 9 more Federal Home Loan Banks may establish a
 10 subsidiary or holding company, subject to the ap-
 11 proval of the Finance Board.

12 “(2) LIMITATIONS.—Any subsidiary or holding
 13 company established under this subsection—

14 “(A) shall be subject to supervision by the
 15 Finance Board;

16 “(B) shall be restricted to engaging only in
 17 those activities permitted for Federal Home
 18 Loan Banks under this Act; and

19 “(C) may only transact business with
 20 members of the Federal Home Loan Banks
 21 that established the subsidiary or holding com-
 22 pany.

23 “(3) PURPOSES.—A Federal Home Loan Bank
 24 may use a subsidiary or holding company established

1 under this subsection to perform administrative and
 2 operational functions.”.

3 **SEC. 12. OTHER AMENDMENTS RELATING TO BANK OPER-**
 4 **ATION AND ADMINISTRATION.**

5 (a) REPEAL OF SECTIONS 22A AND 27.—The Fed-
 6 eral Home Loan Bank Act (12 U.S.C. 1421 et seq.) is
 7 amended by striking sections 22A (12 U.S.C. 1442a) and
 8 27 (12 U.S.C. 1447).

9 (b) SECTION 12.—Section 12 of the Federal Home
 10 Loan Bank Act (12 U.S.C. 1432) is amended—

11 (1) in subsection (a)—

12 (A) by striking “, but, except” and all that
 13 follows through “ten years”;

14 (B) by striking “, subject to the approval
 15 of the Board” each place that term appears;

16 (C) by striking “and, by its Board of direc-
 17 tors,” and all that follows through “agent of
 18 such bank,” and inserting “and, by the board
 19 of directors of the Bank, to prescribe, amend,
 20 and repeal by-laws governing the manner in
 21 which its affairs may be administered, consist-
 22 ent with applicable laws and regulations, as ad-
 23 ministered by the Finance Board. No officer,
 24 employee, attorney, or agent of a Federal Home
 25 Loan Bank”; and

1 (D) by striking “Board of directors” each
 2 place that term appears and inserting “board of
 3 directors”; and

4 (2) in subsection (b), by striking “loans banks”
 5 and inserting “loan banks”.

6 (c) POWERS AND DUTIES OF FEDERAL HOUSING FI-
 7 NANCE BOARD.—

8 (1) ISSUANCE OF NOTICES OF VIOLATIONS.—

9 Section 2B(a) of the Federal Home Loan Bank Act
 10 (12 U.S.C. 1422b(a)) is amended by adding at the
 11 end the following new paragraph:

12 “(5) To issue and serve a notice of charges
 13 upon a Federal Home Loan Bank or upon any exec-
 14 utive officer or director of a Federal Home Loan
 15 Bank if, in the determination of the Finance Board,
 16 the Bank, executive officer, or director is engaging
 17 or has engaged in, or the Finance Board has reason-
 18 able cause to believe that the Bank, executive officer,
 19 or director is about to engage in, any conduct that
 20 violates any provision of this Act or any law, order,
 21 rule, or regulation or any condition imposed in writ-
 22 ing by the Finance Board in connection with the
 23 granting of any application or other request by the
 24 Bank, or any written agreement entered into by the
 25 Bank with the agency, in accordance with the proce-

1 dures provided in section 1371(c) of the Federal
2 Housing Enterprises Financial Safety and Sound-
3 ness Act of 1992. Such authority includes the same
4 authority to take affirmative action to correct condi-
5 tions resulting from violations or practices or to
6 limit activities of a Bank or any executive officer or
7 director of a Bank as appropriate Federal banking
8 agencies have to take with respect to insured deposi-
9 tory institutions under paragraphs (6) and (7) of
10 section 8(b) of the Federal Deposit Insurance Act,
11 and to have all other powers, rights, and duties to
12 enforce this Act with respect to the Federal Home
13 Loan Banks and their executive officers and direc-
14 tors as the Office of Federal Housing Enterprise
15 Oversight has to enforce the Federal Housing Enter-
16 prises Financial Safety and Soundness Act of 1992,
17 the Federal National Mortgage Association Charter
18 Act, or the Federal Home Loan Mortgage Corpora-
19 tion Act with respect to the Federal housing enter-
20 prises under the Federal Housing Enterprises Fi-
21 nancial Safety and Soundness Act of 1992.

22 “(6) To sue and be sued, by and through its
23 own attorneys.”.

24 (2) TECHNICAL AMENDMENT.—Section 111 of
25 Public Law 93–495 (12 U.S.C. 250) is amended by

1 inserting “Federal Housing Finance Board,” after
2 “Director of the Office of Thrift Supervision,”.

3 (d) ELIGIBILITY TO SECURE ADVANCES.—

4 (1) SECTION 9.—Section 9 of the Federal
5 Home Loan Bank Act (12 U.S.C. 1429) is
6 amended—

7 (A) in the second sentence, by striking
8 “with the approval of the Board”; and

9 (B) in the third sentence, by striking “,
10 subject to the approval of the Board,”.

11 (2) SECTION 10.—Section 10 of the Federal
12 Home Loan Bank Act (12 U.S.C. 1430) is
13 amended—

14 (A) in subsection (c)—

15 (i) in the first sentence, by striking
16 “Board” and inserting “Federal Home
17 Loan Bank”; and

18 (ii) by striking the second sentence;

19 (B) in subsection (d)—

20 (i) in the first sentence, by striking
21 “and the approval of the Board”; and

22 (ii) by striking “Subject to the ap-
23 proval of the Board, any” and inserting
24 “Any”; and

25 (C) in subsection (j)—

1 (i) in paragraph (1)—

2 (I) by striking “to subsidize the
3 interest rate on advances” and insert-
4 ing “to provide subsidies, including
5 subsidized interest rates on ad-
6 vances”;

7 (II) by striking “Pursuant” and
8 inserting the following:

9 “(A) ESTABLISHMENT.—Pursuant”; and

10 (III) by adding at the end the
11 following new subparagraph:

12 “(B) NONDELEGATION OF APPROVAL AU-
13 THORITY.—Subject to such regulations as the
14 Finance Board may prescribe, the board of di-
15 rectors of each Federal Home Loan Bank may
16 approve or disapprove requests from members
17 for Affordable Housing Program subsidies, and
18 may not delegate such authority.”;

19 (ii) in each of paragraphs (3), (4),
20 (9)(B), (9)(C), (11), and (12), by striking
21 “advances” each place that term appears
22 and inserting “subsidies”;

23 (iii) in each of paragraphs (2), (5),
24 (9)(A), and (9)(F), by striking “subsidized
25 advances” each place that term appears

1 and inserting “subsidies, including sub-
2 sidized advances,”;

3 (iv) in paragraph (9)(F), by striking
4 “such advances” and inserting “such sub-
5 sidies”;

6 (v) in the paragraph heading for para-
7 graph (3), by striking “ADVANCES” and in-
8 serting “SUBSIDIES”;

9 (vi) in paragraph (2), by striking sub-
10 paragraph (B) and inserting the following:

11 “(B) finance the purchase, construction, or
12 rehabilitation of rental housing if, for a period
13 of not less than 15 years, either—

14 “(i) 20 percent or more of the units
15 in such housing are occupied by and af-
16 fordable for households whose income is 50
17 percent or less of area median income; or

18 “(ii) 40 percent or more of the units
19 in such housing are occupied by and af-
20 fordable for households whose income is 60
21 percent or less of area median income.”;

22 (vii) by striking paragraph (5) and in-
23 serting the following:

24 “(5) CONTRIBUTION TO PROGRAM.—Each Fed-
25 eral Home Loan Bank shall annually contribute 10

1 percent of the net income of that Bank during the
 2 preceding year, or such prorated sums as may be re-
 3 quired to assure that the aggregate contribution of
 4 the Banks shall not be less than \$100,000,000 for
 5 each such year, to support subsidies, including sub-
 6 sidized advances, through the Affordable Housing
 7 Program.”;

8 (viii) in paragraph (11)—

9 (I) by inserting “agencies and”
 10 after “15 persons drawn from”; and

11 (I) by inserting after the first
 12 sentence, the following: “Representa-
 13 tives of no one group shall constitute
 14 an undue proportion of the member-
 15 ship of the Advisory Council.”; and

16 (ix) in paragraph (13)—

17 (I) by striking “subsection—”
 18 and inserting “subsection, the follow-
 19 ing definitions shall apply.”; and

20 (II) by striking subparagraph

21 (D) and inserting the following:

22 “(D) AFFORDABLE.—For purposes of
 23 paragraph (2)(B), the term ‘affordable’ means
 24 that the rent with respect to a unit does not ex-
 25 ceed 30 percent of the income limitation under

1 paragraph (2)(B) applicable to occupants of
2 such unit.”.

3 (e) SECTION 16.—Section 16(a) of the Federal Home
4 Loan Bank Act (12 U.S.C. 1436(a)) is amended—

5 (1) in the third sentence—

6 (A) by striking “net earnings” and insert-
7 ing “previously retained earnings or current net
8 earnings”; and

9 (B) by striking “, and then only with the
10 approval of the Federal Housing Finance
11 Board”; and

12 (2) by striking the fourth sentence.

13 (f) SECTION 18.—Section 18(b) of the Federal Home
14 Loan Bank Act (12 U.S.C. 1438(b)) is amended by strik-
15 ing paragraph (4).

16 **SEC. 13. RESOLUTION FUNDING CORPORATION.**

17 (a) IN GENERAL.—Section 21B(f)(2)(C) of the Fed-
18 eral Home Loan Bank Act (12 U.S.C. 1441b(f)(2)(C)) is
19 amended to read as follows:

20 “(C) PAYMENTS BY FEDERAL HOME LOAN
21 BANKS.—

22 “(i) IN GENERAL.—To the extent that
23 the amounts available pursuant to sub-
24 paragraphs (A) and (B) are insufficient to
25 cover the amount of interest payments,

1 each Federal Home Loan Bank shall pay
2 to the Funding Corporation in each cal-
3 endar year, 20.75 percent of the net earn-
4 ings of that Bank (after deducting ex-
5 penses relating to section 10(j) and operat-
6 ing expenses).

7 “(ii) ANNUAL DETERMINATION.—The
8 Board annually shall determine the extent
9 to which the value of the aggregate
10 amounts paid by the Federal Home Loan
11 Banks exceeds or falls short of the value of
12 an annuity of \$300,000,000 per year that
13 commences on the issuance date and ends
14 on the final scheduled maturity date of the
15 obligations, and shall select appropriate
16 present value factors for making such de-
17 terminations.

18 “(iii) PAYMENT TERM ALTER-
19 ATIONS.—The Board shall extend or short-
20 en the term of the payment obligations of
21 a Federal Home Loan Bank under this
22 subparagraph as necessary to ensure that
23 the value of all payments made by the
24 Banks is equivalent to the value of an an-
25 nuity referred to in clause (ii).

1 “(iv) TERM BEYOND MATURITY.—If
2 the Board extends the term of payments
3 beyond the final scheduled maturity date
4 for the obligations, each Federal Home
5 Loan Bank shall continue to pay 20.75
6 percent of its net earnings (after deducting
7 expenses relating to section 10(j) and oper-
8 ating expenses) to the Treasury of the
9 United States until the value of all such
10 payments by the Federal Home Loan
11 Banks is equivalent to the value of an an-
12 nuity referred to in clause (ii). In the final
13 year in which the Federal Home Loan
14 Banks are required to make any payment
15 to the Treasury under this subparagraph,
16 if the dollar amount represented by 20.75
17 percent of the net earnings of the Federal
18 Home Loan Banks exceeds the remaining
19 obligation of the Banks to the Treasury,
20 the Finance Board shall reduce the per-
21 centage pro rata to a level sufficient to pay
22 the remaining obligation.”.

23 (b) EFFECTIVE DATE.—The amendment made by
24 subsection (a) shall become effective on January 1, 2000.
25 Payments made by a Federal Home Loan Bank before

1 that effective date shall be counted toward the total obliga-
 2 tion of that Bank under section 21B(f)(2)(C) of the Fed-
 3 eral Home Loan Bank Act, as amended by this section.

4 **SEC. 14. CAPITAL STRUCTURE OF FEDERAL HOME LOAN**
 5 **BANKS.**

6 Section 6 of the Federal Home Loan Bank Act (12
 7 U.S.C. 1426) is amended to read as follows:

8 **“SEC. 6. CAPITAL STRUCTURE OF FEDERAL HOME LOAN**
 9 **BANKS.**

10 “(a) REGULATIONS.—

11 “(1) CAPITAL STANDARDS.—Not later than 1
 12 year after the date of enactment of the Federal
 13 Home Loan Bank System Modernization Act of
 14 1999, the Finance Board shall issue regulations pre-
 15 scribing uniform capital standards applicable to each
 16 Federal Home Loan Bank, which shall require each
 17 such Bank to meet—

18 “(A) the leverage limitation requirement
 19 specified in paragraph (2); and

20 “(B) the risk-based capital requirements,
 21 in accordance with paragraph (3).

22 “(2) MINIMUM LEVERAGE LIMITATION RE-
 23 QUIREMENT.—Each Federal Home Loan Bank shall
 24 maintain total capital in an amount equal to not less
 25 than 2.5 percent of the total assets of that Bank.

1 “(3) RISK-BASED CAPITAL STANDARDS.—

2 “(A) IN GENERAL.—Each Federal Home
3 Loan Bank shall maintain permanent capital in
4 an amount that is sufficient, as determined in
5 accordance with the regulations of the Finance
6 Board, to meet—

7 “(i) the credit risk to which the Fed-
8 eral Home Loan Bank is subject; and

9 “(ii) the market risk, including inter-
10 est rate risk, to which the Federal Home
11 Loan Bank is subject, based on a stress
12 test established by the Finance Board that
13 rigorously tests for changes in market vari-
14 ables, including changes in interest rates,
15 rate volatility, and changes in the shape of
16 the yield curve.

17 “(B) TREATMENT OF CERTAIN OBLIGA-
18 TIONS.—For purposes of subparagraph (A), ob-
19 ligations issued or guaranteed by the United
20 States, obligations issued by any agency or in-
21 strumentality of the United States and for
22 which the timely repayment of principal and in-
23 terest is explicitly guaranteed by the full faith
24 and credit of the United States, and advances
25 made pursuant to section 10 or 10b that are se-

1 cured by eligible collateral having a market
2 value (in accordance with the regulations adopt-
3 ed by the Finance Board) in excess of the bal-
4 ance due on such advances shall be deemed to
5 present no credit risk.

6 “(C) CONSIDERATION OF OTHER RISK-
7 BASED STANDARDS.—In establishing the risk-
8 based standard under subparagraph (A)(ii), the
9 Finance Board shall take due consideration of
10 any risk-based capital test established pursuant
11 to section 1361 of the Federal Housing Enter-
12 prises Financial Safety and Soundness Act of
13 1992 (12 U.S.C. 4611) for the enterprises (as
14 defined in that Act), with such modifications as
15 the Finance Board determines to be appro-
16 priate to reflect differences in operations be-
17 tween the Federal Home Loan Banks and those
18 enterprises.

19 “(4) OTHER REGULATORY REQUIREMENTS.—
20 The regulations issued by the Finance Board under
21 paragraph (1) shall—

22 “(A) permit each Federal Home Loan
23 Bank to issue, with such rights, terms, and
24 preferences, not inconsistent with this Act and
25 the regulations issued hereunder, as the board

1 of directors of that Bank may approve, any 1
2 or more of—

3 “(i) Class A stock, which shall be re-
4 deemable in cash and at par 6 months fol-
5 lowing submission by a member of a writ-
6 ten notice of its intent to redeem such
7 shares;

8 “(ii) Class B stock, which shall be re-
9 deemable in cash and at par 5 years fol-
10 lowing submission by a member of a writ-
11 ten notice of its intent to redeem such
12 shares;

13 “(iii) Class C stock, which shall be
14 nonredeemable; and

15 “(iv) any other class of stock author-
16 ized by the board of directors of the Fed-
17 eral Home Loan Bank and approved by
18 the Finance Board, through such proce-
19 dures as the Finance Board may prescribe,
20 which, if nonredeemable, may be des-
21 ignated as permanent capital;

22 “(B) provide that the stock of a Federal
23 Home Loan Bank may be issued to and held by
24 only members of the Bank, and that a Bank

1 may not issue any stock other than as provided
2 in this section;

3 “(C) prescribe the manner in which stock
4 of a Federal Home Loan Bank may be sold,
5 transferred, redeemed, or repurchased; and

6 “(D) provide the manner of disposition of
7 outstanding stock held by, and the liquidation
8 of any claims of the Federal Home Loan Bank
9 against, an institution that ceases to be a mem-
10 ber of the Bank, through merger or otherwise,
11 or that provides notice of intention to withdraw
12 from membership in the Bank.

13 “(5) DEFINITIONS OF CAPITAL.—For purposes
14 of determining compliance with the capital standards
15 established under this subsection—

16 “(A) permanent capital of a Federal Home
17 Loan Bank shall include (as determined in ac-
18 cordance with generally accepted accounting
19 principles)—

20 “(i) the amounts paid for the Class C
21 stock and any other nonredeemable stock
22 approved by the Finance Board;

23 “(ii) the amounts paid for the Class B
24 stock, in an amount not to exceed 1 per-
25 cent of the total assets of the Bank; and

1 “(iii) the retained earnings of the
2 Bank; and

3 “(B) total capital of a Federal Home Loan
4 Bank shall include—

5 “(i) permanent capital;

6 “(ii) the amounts paid for the Class A
7 stock, Class B stock (excluding any
8 amount treated as permanent capital
9 under subparagraph (5)(A)(ii)), or any
10 other class of redeemable stock approved
11 by the Finance Board;

12 “(iii) consistent with generally accept-
13 ed accounting principles, and subject to the
14 regulation of the Finance Board, a general
15 allowance for losses, which may not include
16 any reserves or allowances made or held
17 against specific assets; and

18 “(iv) any other amounts from sources
19 available to absorb losses incurred by the
20 Bank that the Finance Board determines
21 by regulation to be appropriate to include
22 in determining total capital.

23 “(6) TRANSITION PERIOD.—Notwithstand-
24 ing any other provisions of this Act, the re-
25 quirements relating to purchase and retention

1 of capital stock of a Federal Home Loan Bank
2 by any member thereof in effect on the day be-
3 fore the date of enactment of the Federal Home
4 Loan Bank System Modernization Act of 1999,
5 shall continue in effect with respect to each
6 Federal Home Loan Bank until the regulations
7 required by this subsection have taken effect
8 and the capital structure plan required by sub-
9 section (b) has been approved by the Finance
10 Board and implemented by such Bank.

11 “(b) CAPITAL STRUCTURE PLAN.—

12 “(1) APPROVAL OF PLANS.—Not later than 270
13 days after the date of publication by the Finance
14 Board of final regulations in accordance with sub-
15 section (a), the board of directors of each Federal
16 Home Loan Bank shall submit for Finance Board
17 approval a plan establishing and implementing a
18 capital structure for such Bank that—

19 “(A) the board of directors determines is
20 best suited for the condition and operation of
21 the Bank and the interests of the members of
22 the Bank;

23 “(B) meets the requirements of subsection
24 (c); and

1 “(C) meets the minimum capital standards
2 and requirements established under subsection
3 (a) and other regulations prescribed by the Fi-
4 nance Board.

5 “(2) APPROVAL OF MODIFICATIONS.—The
6 board of directors of a Federal Home Loan Bank
7 shall submit to the Finance Board for approval any
8 modifications that the Bank proposes to make to an
9 approved capital structure plan.

10 “(c) CONTENTS OF PLAN.—The capital structure
11 plan of each Federal Home Loan Bank shall contain pro-
12 visions addressing each of the following:

13 “(1) MINIMUM INVESTMENT.—

14 “(A) IN GENERAL.—Each capital structure
15 plan of a Federal Home Loan Bank shall re-
16 quire each member of the Bank to maintain a
17 minimum investment in the stock of the Bank,
18 the amount of which shall be determined in a
19 manner to be prescribed by the board of direc-
20 tors of each Bank and to be included as part
21 of the plan.

22 “(B) INVESTMENT ALTERNATIVES.—

23 “(i) IN GENERAL.—In establishing the
24 minimum investment required for each
25 member under subparagraph (A), a Fed-

1 eral Home Loan Bank may, in its discre-
2 tion, include any 1 or more of the require-
3 ments referred to in clause (ii), or any
4 other provisions approved by the Finance
5 Board.

6 “(ii) AUTHORIZED REQUIREMENTS.—
7 A requirement is referred to in this clause
8 if it is a requirement for—

9 “(I) a stock purchase based on a
10 percentage of the total assets of a
11 member (not to exceed the lesser of
12 0.3 percent of the total assets of the
13 member or \$300,000,000); or

14 “(II) a stock purchase based on a
15 percentage of the outstanding ad-
16 vances from the Bank to the member
17 (not to exceed 5 percent of the total
18 outstanding advances of the member).

19 “(C) MINIMUM AMOUNT.—Each capital
20 structure plan of a Federal Home Loan Bank
21 shall require that the minimum stock invest-
22 ment established for members shall be set at a
23 level that is sufficient for the Bank to meet the
24 minimum capital requirements established by
25 the Finance Board under subsection (a).

1 “(D) ADJUSTMENTS TO MINIMUM RE-
2 QUIRED INVESTMENT.—The capital structure
3 plan of each Federal Home Loan Bank shall
4 impose a continuing obligation on the board of
5 directors of the Bank to review and adjust the
6 minimum investment required of each member
7 of that Bank, as necessary to ensure that the
8 Bank remains in compliance with applicable
9 minimum capital levels established by the Fi-
10 nance Board, and shall require each member to
11 comply promptly with any adjustments to the
12 required minimum investment.

13 “(2) TRANSITION RULE.—

14 “(A) IN GENERAL.—The capital structure
15 plan of each Federal Home Loan Bank shall
16 specify the date on which it shall take effect,
17 and may provide for a transition period of not
18 longer than 3 years to allow the Bank to come
19 into compliance with the capital requirements
20 prescribed under subsection (a), and to allow
21 any institution that was a member of the Bank
22 on the date of enactment of the Federal Home
23 Loan Bank System Modernization Act of 1999,
24 to come into compliance with the minimum in-
25 vestment required pursuant to the plan.

1 “(B) INTERIM PURCHASE REQUIRE-
2 MENTS.—The capital structure plan of a Fed-
3 eral Home Loan Bank may allow any member
4 referred to in subparagraph (A) that would be
5 required by the terms of the capital structure
6 plan to increase its investment in the stock of
7 the Bank to do so in periodic installments dur-
8 ing the transition period.

9 “(3) DISPOSITION OF SHARES.—The capital
10 structure plan of a Federal Home Loan Bank shall
11 provide for the manner of disposition of any stock
12 held by a member of that Bank that terminates its
13 membership or that provides notice of its intention
14 to withdraw from membership in that Bank.

15 “(4) CLASSES OF STOCK.—

16 “(A) IN GENERAL.—The capital structure
17 plan of a Federal Home Loan Bank shall afford
18 each member of that Bank the option of main-
19 taining its required investment in the Bank
20 through the purchase of any combination of
21 classes of stock authorized by the board of di-
22 rectors of the Bank and approved by the Fi-
23 nance Board in accordance with its regulations.

24 “(B) RIGHTS REQUIREMENT.—A Federal
25 Home Loan Bank shall include in its capital

1 structure plan provisions establishing terms,
2 rights, and preferences, including minimum in-
3 vestment, dividends, voting, and liquidation
4 preferences of each class of stock issued by the
5 Bank, consistent with Finance Board regula-
6 tions and market requirements.

7 “(C) REDUCED MINIMUM INVESTMENT.—

8 The capital structure plan of a Federal Home
9 Loan Bank may provide for a reduced mini-
10 mum stock investment for any member of that
11 Bank that elects to purchase Class B, Class C,
12 or any other class of nonredeemable stock, in a
13 manner that is consistent with meeting the min-
14 imum capital requirements of the Bank, as es-
15 tablished by the Finance Board.

16 “(D) LIQUIDATION OF CLAIMS.—The cap-

17 ital structure plan of a Federal Home Loan
18 Bank shall provide for the liquidation in an or-
19 derly manner, as determined by the Bank, of
20 any claim of that Bank against a member, in-
21 cluding claims for any applicable prepayment
22 fees or penalties resulting from prepayment of
23 advances prior to stated maturity.

1 “(5) LIMITED TRANSFERABILITY OF STOCK.—

2 The capital structure plan of a Federal Home Loan
3 Bank shall—

4 “(A) provide that—

5 “(i) any stock issued by that Bank
6 shall be available only to, held only by, and
7 tradable only among members of that
8 Bank and between that Bank and its mem-
9 bers; and

10 “(ii) a Bank has no obligation to re-
11 purchase its outstanding Class C stock but
12 may do so, provided it is consistent with
13 Finance Board regulations and is at a
14 price that is mutually agreeable to the
15 Bank and the member; and

16 “(B) establish standards, criteria, and re-
17 quirements for the issuance, purchase, transfer,
18 retirement, and redemption of stock issued by
19 that Bank.

20 “(6) BANK REVIEW OF PLAN.—Before filing a
21 capital structure plan with the Finance Board, each
22 Federal Home Loan Bank shall conduct a review of
23 the plan by—

24 “(A) an independent certified public ac-
25 countant, to ensure, to the extent possible, that

1 implementation of the plan would not result in
2 any write-down of the redeemable Bank stock
3 investment of its members; and

4 “(B) at least 1 major credit rating agency,
5 to determine, to the extent possible, whether
6 implementation of the plan would have any ma-
7 terial effect on the credit ratings of the Bank.

8 “(d) TERMINATION OF MEMBERSHIP.—

9 “(1) VOLUNTARY WITHDRAWAL.—Any member
10 may withdraw from a Federal Home Loan Bank by
11 providing written notice to the Bank of its intent to
12 do so. The applicable stock redemption notice peri-
13 ods shall commence upon receipt of the notice by the
14 Bank. Upon the expiration of the applicable notice
15 period for each class of redeemable stock, the mem-
16 ber may surrender such stock to the Bank, and shall
17 be entitled to receive in cash the par value of the
18 stock. During the applicable notice periods, the
19 member shall be entitled to dividends and other
20 membership rights commensurate with continuing
21 stock ownership.

22 “(2) INVOLUNTARY WITHDRAWAL.—

23 “(A) IN GENERAL.—The board of directors
24 of a Federal Home Loan Bank may terminate
25 the membership of any institution if, subject to

1 Finance Board regulations, it determines
2 that—

3 “(i) the member has failed to comply
4 with a provision of this Act or any regula-
5 tion prescribed under this Act; or

6 “(ii) the member has been determined
7 to be insolvent, or otherwise subject to the
8 appointment of a conservator, receiver, or
9 other legal custodian, by a State or Fed-
10 eral authority with regulatory and super-
11 visory responsibility for the member.

12 “(B) STOCK DISPOSITION.—An institution,
13 the membership of which is terminated in ac-
14 cordance with subparagraph (A)—

15 “(i) shall surrender redeemable stock
16 to the Federal Home Loan Bank, and shall
17 receive in cash the par value of the stock,
18 upon the expiration of the applicable notice
19 period under subsection (a)(4)(A);

20 “(ii) shall receive any dividends de-
21 clared on its redeemable stock, during the
22 applicable notice period under subsection
23 (a)(4)(A); and

1 “(iii) shall not be entitled to any other
 2 rights or privileges accorded to members
 3 after the date of the termination.

4 “(C) COMMENCEMENT OF NOTICE PE-
 5 RIOD.—With respect to an institution, the
 6 membership of which is terminated in accord-
 7 ance with subparagraph (A), the applicable no-
 8 tice period under subsection (a)(4) for each
 9 class of redeemable stock shall commence on
 10 the earlier of—

11 “(i) the date of such termination; or

12 “(ii) the date on which the member
 13 has provided notice of its intent to redeem
 14 such stock.

15 “(3) LIQUIDATION OF INDEBTEDNESS.—Upon
 16 the termination of the membership of an institution
 17 for any reason, the outstanding indebtedness of the
 18 member to the Bank shall be liquidated in an or-
 19 derly manner, as determined by the Bank and, upon
 20 the extinguishment of all such indebtedness, the
 21 Bank shall return to the member all collateral
 22 pledged to secure the indebtedness.

23 “(e) REDEMPTION OF EXCESS STOCK.—

24 “(1) IN GENERAL.—A Federal Home Loan
 25 Bank, in its sole discretion, may redeem or repur-

1 chase, as appropriate, any shares of Class A or
2 Class B stock issued by the Bank and held by a
3 member that are in excess of the minimum stock in-
4 vestment required of that member.

5 “(2) EXCESS STOCK.—Shares of stock held by
6 a member shall not be deemed to be ‘excess stock’
7 for purposes of this subsection by virtue of a mem-
8 ber’s submission of a notice of intent to withdraw
9 from membership or termination of its membership
10 in any other manner.

11 “(3) PRIORITY.—A Federal Home Loan Bank
12 may not redeem any excess Class B stock prior to
13 the end of the 5-year notice period, unless the mem-
14 ber has no Class A stock outstanding that could be
15 redeemed as excess.

16 “(f) IMPAIRMENT OF CAPITAL.—If the Finance
17 Board or the board of directors of a Federal Home Loan
18 Bank determines that the Bank has incurred or is likely
19 to incur losses that result in or are expected to result in
20 charges against the capital of the Bank, the Bank shall
21 not redeem or repurchase any stock of the Bank without
22 the prior approval of the Finance Board while such
23 charges are continuing or are expected to continue. In no
24 case may a Bank redeem or repurchase any applicable

1 capital stock if, following the redemption, the Bank would
2 fail to satisfy any minimum capital requirement.

3 “(g) REJOINING AFTER DIVESTITURE OF ALL
4 SHARES.—

5 “(1) IN GENERAL.—Except as provided in para-
6 graph (2), and notwithstanding any other provision
7 of this Act, an institution that divests all shares of
8 stock in a Federal Home Loan Bank may not, after
9 such divestiture, acquire shares of any Federal
10 Home Loan Bank before the end of the 5-year pe-
11 riod beginning on the date of the completion of such
12 divestiture, unless the divestiture is a consequence of
13 a transfer of membership on an uninterrupted basis
14 between Banks.

15 “(2) EXCEPTION FOR WITHDRAWALS FROM
16 MEMBERSHIP BEFORE 1998.—Any institution that
17 withdrew from membership in any Federal Home
18 Loan Bank before December 31, 1997, may acquire
19 shares of a Federal Home Loan Bank at any time
20 after that date, subject to the approval of the Fi-
21 nance Board and the requirements of this Act.

22 “(h) TREATMENT OF RETAINED EARNINGS.—

23 “(1) IN GENERAL.—The holders of the Class C
24 stock of a Federal Home Loan Bank, and any other
25 classes of nonredeemable stock approved by the Fi-

1 nance Board (to the extent provided in the terms
2 thereof), shall own the retained earnings, surplus,
3 undivided profits, and equity reserves, if any, of the
4 Bank.

5 “(2) NO NONREDEEMABLE CLASSES OF
6 STOCK.—If a Federal Home Loan Bank has no out-
7 standing Class C or other such nonredeemable stock,
8 then the holders of any other classes of stock of the
9 Bank then outstanding shall have ownership in, and
10 a private property right in, the retained earnings,
11 surplus, undivided profits, and equity reserves, if
12 any, of the Bank.

13 “(3) EXCEPTION.—Except as specifically pro-
14 vided in this section or through the declaration of a
15 dividend or a capital distribution by a Federal Home
16 Loan Bank, or in the event of liquidation of the
17 Bank, a member shall have no right to withdraw or
18 otherwise receive distribution of any portion of the
19 retained earnings of the Bank.

20 “(4) LIMITATION.—A Federal Home Loan
21 Bank may not make any distribution of its retained
22 earnings unless, following such distribution, the
23 Bank would continue to meet all applicable capital
24 requirements.”.

○