

106TH CONGRESS
1ST SESSION

S. 458

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

IN THE SENATE OF THE UNITED STATES

FEBRUARY 24, 1999

Mr. HAGEL (for himself, Mr. BAYH, Mr. LOTT, Mr. BENNETT, Mr. GRAMS, Mr. KERREY, Mr. JOHNSON, Mr. DEWINE, Mr. CONRAD, Mr. INHOFE, Mr. MURKOWSKI, Mr. BROWNBACK, Mr. BRYAN, Mr. ROBERTS, and Mr. BURNS) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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—

1 “(i) the deposits of which are insured
 2 under the Federal Deposit Insurance Act;
 3 and

4 “(ii) that has, as of the date of the
 5 transaction at issue, less than
 6 \$500,000,000 in average total assets,
 7 based on an average of total assets over
 8 the 3 years preceding that date.

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

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

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

22 **SEC. 4. SAVINGS ASSOCIATION MEMBERSHIP.**

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

1 “(f) FEDERAL HOME LOAN BANK MEMBERSHIP.—
 2 On and after January 1, 2000, a Federal savings associa-
 3 tion may become a member of the Federal Home Loan
 4 Bank System, and shall qualify for such membership in
 5 the manner provided by the Federal Home Loan Bank
 6 Act.”.

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

8 (a) IN GENERAL.—Section 10(a) of the Federal
 9 Home Loan Bank Act (12 U.S.C. 1430(a)) is amended—
 10 (1) by redesignating paragraphs (1) through
 11 (4) as subparagraphs (A) through (D), respectively,
 12 and indenting appropriately;

13 (2) by striking “(a) Each” and inserting the
 14 following:

15 “(a) IN GENERAL.—

16 “(1) ALL ADVANCES.—Each”;

17 (3) by striking the second sentence and insert-
 18 ing the following:

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

21 “(A) providing funds to any member for
 22 residential housing finance; and

23 “(B) providing funds to any community fi-
 24 nancial institution for small businesses, agricul-

1 tural, rural development, or low-income commu-
2 nity development lending.”;

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

5 “(3) COLLATERAL.—A Bank”;

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

8 (A) in subparagraph (C) (as so redesign-
9 nated by paragraph (1) of this subsection) by
10 striking “Deposits” and inserting “Cash or de-
11 posits”;

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

15 (C) by inserting after subparagraph (D)
16 (as so redesignated by paragraph (1) of this
17 subsection) the following new subparagraph:

18 “(E) Secured loans for small business, ag-
19 riculture, rural development, or low-income
20 community development, or securities represent-
21 ing a whole interest in such secured loans, in
22 the case of any community financial institu-
23 tion.”;

24 (6) in paragraph (5)—

1 (A) in the second sentence, by striking
2 “and the Board”;

3 (B) in the third sentence, by striking
4 “Board” and inserting “Federal Home Loan
5 Bank”; and

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

8 “(4) ADDITIONAL BANK AUTHORITY.—Subpara-
9 graphs (A) through (E) of paragraph (3)”;

10 (7) by adding at the end the following:

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

18 “(6) DEFINITIONS.—For purposes of this
19 subsection—

20 “(A) the terms ‘small business’, ‘agri-
21 culture’, ‘rural development’, and ‘low-income
22 community development’ shall have the mean-
23 ings given those terms by rule or regulation of
24 the Finance Board; and

1 “(B) the term ‘loans for small business’
 2 may include a loan guaranteed by the Small
 3 Business Administration under section 7(a) of
 4 the Small Business Act.”.

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

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

9 **SEC. 6. ELIGIBILITY CRITERIA.**

10 Section 4(a) of the Federal Home Loan Bank Act
 11 (12 U.S.C. 1424(a)) is amended—

12 (1) in paragraph (2)(A), by inserting, “(other
 13 than a community financial institution)” after “in-
 14 stitution”; and

15 (2) by adding at the end the following new
 16 paragraph:

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

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

2 (a) FEDERAL HOME LOAN BANK ACT.—Section
3 10(e) of the Federal Home Loan Bank Act (12 U.S.C.
4 1430(e)), as added by section 105 of Public Law 100–
5 86 and subsequently amended (relating to qualified thrift
6 lender status) is amended—

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

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

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

13 (4) in paragraph (5), by striking subparagraph
14 (C); and

15 (5) by redesignating paragraphs (2), (4), and
16 (5) as paragraphs (1), (2), and (3), respectively.

17 (b) HOME OWNERS’ LOAN ACT.—Section
18 10(m)(3)(B) of the Home Owners’ Loan Act (12 U.S.C.
19 1467a(m)(3)(B)) is amended—

20 (1) in clause (i), by striking subclause (III) and
21 by redesignating subclause (IV) as subclause (III);
22 and

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

24 “(ii) ADDITIONAL RESTRICTIONS EF-
25 FECTIVE AFTER THREE YEARS.—Begin-
26 ning 3 years after the date on which a sav-

1 ings association should have become or
 2 ceases to be a qualified thrift lender, the
 3 savings association shall not retain any in-
 4 vestment (including an investment in any
 5 subsidiary) or engage, directly or indi-
 6 rectly, in any activity unless that invest-
 7 ment or activity would be permissible for
 8 the savings association if it were a national
 9 bank, and is also permissible for the sav-
 10 ings association as a savings association.”.

11 **SEC. 8. FEDERAL HOME LOAN BANK FINANCE CORPORA-**
 12 **TION.**

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

17 **“SEC. 5. THE FEDERAL HOME LOAN BANK FINANCE COR-**
 18 **PORATION.**

19 “(a) ESTABLISHMENT.—

20 “(1) IN GENERAL.—There is established the
 21 Federal Home Loan Bank Finance Corporation
 22 (hereafter in this section referred to as the ‘Corpora-
 23 tion’), which shall be a federally chartered instru-
 24 mentality of the United States.

1 “(2) PURPOSES.—The purposes of the Corpora-
2 tion shall be—

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

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

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

22 “(1) to issue voting capital stock to the Federal
23 Home Loan Banks;

24 “(2) to issue and service Federal Home Loan
25 Bank notes, bonds, debentures, and other obligations

1 pursuant to section 11 on behalf of the Federal
2 Home Loan Banks;

3 “(3) to determine the amount, maturities, rate
4 of interest, terms, and other conditions of Federal
5 Home Loan Bank notes, bonds, debentures, and
6 other obligations;

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

8 “(5) to make contracts;

9 “(6) to sue and be sued, by and through its
10 own attorneys, in the corporate capacity of the Cor-
11 poration, and to complain and defend in any action
12 brought by or against the Corporation in any court
13 of competent jurisdiction;

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

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

20 “(c) BOARD OF DIRECTORS.—

21 “(1) ESTABLISHMENT.—The management of
22 the Corporation shall be vested in a board of direc-
23 tors composed of directors elected by the Federal
24 Home Loan Banks in accordance with paragraph
25 (2).

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

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

9 “(4) TERMS.—

10 “(A) IN GENERAL.—Each member of the
11 board of directors of the Corporation shall be
12 elected for a term of 1 year, and shall serve at
13 the pleasure of the board of directors of the
14 Federal Home Loan Bank that elected that
15 member.

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

23 “(C) CONTINUATION OF SERVICE.—Each
24 director may continue to serve after the expira-
25 tion of the term to which that director was

1 elected until a successor has been elected and
2 qualified.

3 “(5) POWERS.—The board of directors shall ex-
4 ercise such powers as may be necessary and appro-
5 priate to carry out this section, including the
6 power—

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

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

10 “(C) to impose assessments on the Federal
11 Home Loan Banks to fund the expenditures of
12 the Corporation; and

13 “(D) to appoint, establish the duties of,
14 and compensate the employees of the Corpora-
15 tion, and to dismiss at will the employees of the
16 Corporation.

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

22 “(7) QUORUM REQUIREMENT.—No business
23 may be conducted by the board of directors unless
24 a quorum of the members of the board of directors
25 is present in person or by telephone, or through ac-

1 tion taken by unanimous written consent executed
2 by the members of the board of directors.

3 “(8) APPOINTMENT OF OFFICERS AND ADOPT-
4 TIONS OF RULES OF PROCEDURE.—The board of di-
5 rectors shall—

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

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

16 “(d) STOCK.—

17 “(1) ISSUANCE OF EQUAL AMOUNT TO EACH
18 BANK.—The Corporation shall issue to each Bank
19 100 shares of voting capital stock, with a par value
20 of \$100 per share.

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

24 “(3) MERGER.—Stock issued under paragraph
25 (1) shall be redeemable or transferable at par in the

1 event of a merger or consolidation pursuant to sec-
2 tion 26.

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

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

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

19 “(f) JURISDICTION; REMOVAL POWER.—

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

24 “(2) VENUE.—The United States District
25 Court for the District of Columbia shall have exclu-

1 sive jurisdiction over any action to which the Cor-
2 poration is a party.

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

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

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

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

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

3 (2) in section 2B(b)(1)—

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

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

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

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

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

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

18 “(A) The Chairperson of the Federal
 19 Home Loan Bank Finance Corporation estab-
 20 lished under section 5.”.

21 **SEC. 9. MANAGEMENT OF BANKS.**

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

24 (1) in subsection (a)—

1 (A) by striking “(a) The management”
 2 and inserting the following:

3 “(a) BOARD OF DIRECTORS.—

4 “(1) NUMBER AND CLASSES OF DIRECTORS.—
 5 The management”; and

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

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

15 (2) in subsection (d)—

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

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

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

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

23 (c) OBLIGATIONS AS LAWFUL INVESTMENTS.—Sec-
 24 tion 15 of the Federal Home Loan Bank Act (12 U.S.C.

1 1435) is amended by striking “with the approval of the
2 Board”.

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

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

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

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

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

16 “(b) ISSUANCE OF FEDERAL HOME LOAN BANK
17 CONSOLIDATED OBLIGATIONS.—

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

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

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

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

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

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

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

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

20 (2) by redesignating subsections (d) through (k)
21 as subsections (c) through (j), respectively.

22 **SEC. 11. MERGERS AND CONSOLIDATIONS OF FEDERAL**
23 **HOME LOAN BANKS.**

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

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

2 “(a) IN GENERAL.—

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

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

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

1 “(c) NUMBERS OF DIRECTORS OF RESULTING
2 BANK.—

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

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

21 “(d) NUMBER OF APPOINTED DIRECTORS OF RE-
22 SULTING BANK.—The number of appointed directors on
23 the board of directors of a Bank resulting from a merger,
24 combination, or consolidation pursuant to this section

1 shall not exceed three-fourths the number of elected direc-
 2 tors on the board of directors of that Bank.

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

9 “(f) SUBSIDIARIES; HOLDING COMPANIES.—

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

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

16 “(A) shall be subject to supervision by the
 17 Finance Board;

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

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

1 “(3) PURPOSES.—A Federal Home Loan Bank
 2 may use a subsidiary or holding company established
 3 under this subsection to perform administrative and
 4 operational functions.”.

5 **SEC. 12. OTHER AMENDMENTS RELATING TO BANK OPER-**
 6 **ATION AND ADMINISTRATION.**

7 (a) REPEAL OF SECTIONS 22A AND 27.—The Fed-
 8 eral Home Loan Bank Act (12 U.S.C. 1421 et seq.) is
 9 amended by striking sections 22A (12 U.S.C. 1442a) and
 10 27 (12 U.S.C. 1447).

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

13 (1) in subsection (a)—

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

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

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

1 employee, attorney, or agent of a Federal Home
 2 Loan Bank”; and

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

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

8 (c) POWERS AND DUTIES OF FEDERAL HOUSING FI-
 9 NANCE BOARD.—

10 (1) ISSUANCE OF NOTICES OF VIOLATIONS.—

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

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

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

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

1 (2) TECHNICAL AMENDMENT.—Section 111 of
 2 Public Law 93–495 (12 U.S.C. 250) is amended by
 3 inserting “Federal Housing Finance Board,” after
 4 “Director of the Office of Thrift Supervision,”.

5 (d) ELIGIBILITY TO SECURE ADVANCES.—

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

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

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

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

16 (A) in subsection (c)—

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

20 (ii) by striking the second sentence;

21 (B) in subsection (d)—

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

(ii) by striking “Subject to the approval of the Board, any” and inserting “Any”; and

(C) in subsection (j)—

(i) in paragraph (1)—

(I) by striking “to subsidize the interest rate on advances” and inserting “to provide subsidies, including subsidized interest rates on advances”;

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

“(A) ESTABLISHMENT.—Pursuant”; and

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

“(B) NONDELEGATION OF APPROVAL AUTHORITY.—Subject to such regulations as the Finance Board may prescribe, the board of directors of each Federal Home Loan Bank may approve or disapprove requests from members for Affordable Housing Program subsidies, and may not delegate such authority.”;

(ii) in each of paragraphs (3), (4), (9)(B), (9)(C), (11), and (12), by striking

1 “advances” each place that term appears
 2 and inserting “subsidies”;

3 (iii) in each of paragraphs (2), (5),
 4 (9)(A), and (9)(F), by striking “subsidized
 5 advances” each place that term appears
 6 and inserting “subsidies, including sub-
 7 sidized advances,”;

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

11 (v) in the paragraph heading for para-
 12 graph (3), by striking “ADVANCES” and in-
 13 serting “SUBSIDIES”;

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

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

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

23 “(ii) 40 percent or more of the units
 24 in such housing are occupied by and af-

1 fordable for households whose income is 60
2 percent or less of area median income.”;

3 (vii) by striking paragraph (5) and in-
4 serting the following:

5 “(5) CONTRIBUTION TO PROGRAM.—Each Fed-
6 eral Home Loan Bank shall annually contribute 10
7 percent of the net income of that Bank during the
8 preceding year, or such prorated sums as may be
9 required to assure that the aggregate contribution
10 of the Banks shall not be less than \$100,000,000
11 for each such year, to support subsidies, including
12 subsidized advances, through the Affordable Hous-
13 ing Program.”;

14 (viii) in paragraph (11)—

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

17 (I) by inserting after the first
18 sentence, the following: “Representa-
19 tives of no one group shall constitute
20 an undue proportion of the member-
21 ship of the Advisory Council.”; and

22 (ix) in paragraph (13)—

23 (I) by striking “subsection—”
24 and inserting “subsection, the follow-
25 ing definitions shall apply.”; and

1 (II) by striking subparagraph
 2 (D) and inserting the following:

3 “(D) AFFORDABLE.—For purposes of
 4 paragraph (2)(B), the term ‘affordable’ means
 5 that the rent with respect to a unit does not ex-
 6 ceed 30 percent of the income limitation under
 7 paragraph (2)(B) applicable to occupants of
 8 such unit.”.

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

11 (1) in the third sentence—

12 (A) by striking “net earnings” and insert-
 13 ing “previously retained earnings or current net
 14 earnings”; and

15 (B) by striking “, and then only with the
 16 approval of the Federal Housing Finance
 17 Board”; and

18 (2) by striking the fourth sentence.

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

22 **SEC. 13. RESOLUTION FUNDING CORPORATION.**

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

1 “(C) PAYMENTS BY FEDERAL HOME LOAN
2 BANKS.—

3 “(i) IN GENERAL.—To the extent that
4 the amounts available pursuant to sub-
5 paragraphs (A) and (B) are insufficient to
6 cover the amount of interest payments,
7 each Federal Home Loan Bank shall pay
8 to the Funding Corporation in each cal-
9 endar year, 20.75 percent of the net earn-
10 ings of that Bank (after deducting ex-
11 penses relating to section 10(j) and operat-
12 ing expenses).

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

24 “(iii) PAYMENT TERM ALTER-
25 ATIONS.—The Board shall extend or short-

1 en the term of the payment obligations of
 2 a Federal Home Loan Bank under this
 3 subparagraph as necessary to ensure that
 4 the value of all payments made by the
 5 Banks is equivalent to the value of an an-
 6 nuity referred to in clause (ii).

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

1 the Finance Board shall reduce the per-
 2 centage pro rata to a level sufficient to pay
 3 the remaining obligation.”.

4 (b) **EFFECTIVE DATE.**—The amendment made by
 5 subsection (a) shall become effective on January 1, 2000.
 6 Payments made by a Federal Home Loan Bank before
 7 that effective date shall be counted toward the total obliga-
 8 tion of that Bank under section 21B(f)(2)(C) of the Fed-
 9 eral Home Loan Bank Act, as amended by this section.

10 **SEC. 14. CAPITAL STRUCTURE OF FEDERAL HOME LOAN**
 11 **BANKS.**

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

14 **“SEC. 6. CAPITAL STRUCTURE OF FEDERAL HOME LOAN**
 15 **BANKS.**

16 “(a) **REGULATIONS.**—

17 “(1) **CAPITAL STANDARDS.**—Not later than 1
 18 year after the date of enactment of the Federal
 19 Home Loan Bank System Modernization Act of
 20 1999, the Finance Board shall issue regulations pre-
 21 scribing uniform capital standards applicable to each
 22 Federal Home Loan Bank, which shall require each
 23 such Bank to meet—

24 “(A) the leverage limitation requirement
 25 specified in paragraph (2); and

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

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

7 “(3) RISK-BASED CAPITAL STANDARDS.—

8 “(A) IN GENERAL.—Each Federal Home
9 Loan Bank shall maintain permanent capital in
10 an amount that is sufficient, as determined in
11 accordance with the regulations of the Finance
12 Board, to meet—

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

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

23 “(B) TREATMENT OF CERTAIN OBLIGA-
24 TIONS.—For purposes of subparagraph (A), ob-
25 ligations issued or guaranteed by the United

1 States, obligations issued by any agency or in-
2 strumentality of the United States and for
3 which the timely repayment of principal and in-
4 terest is explicitly guaranteed by the full faith
5 and credit of the United States, and advances
6 made pursuant to section 10 or 10b that are se-
7 cured by eligible collateral having a market
8 value (in accordance with the regulations adopt-
9 ed by the Finance Board) in excess of the bal-
10 ance due on such advances shall be deemed to
11 present no credit risk.

12 “(C) CONSIDERATION OF OTHER RISK-
13 BASED STANDARDS.—In establishing the risk-
14 based standard under subparagraph (A)(ii), the
15 Finance Board shall take due consideration of
16 any risk-based capital test established pursuant
17 to section 1361 of the Federal Housing Enter-
18 prises Financial Safety and Soundness Act of
19 1992 (12 U.S.C. 4611) for the enterprises (as
20 defined in that Act), with such modifications as
21 the Finance Board determines to be appro-
22 priate to reflect differences in operations be-
23 tween the Federal Home Loan Banks and those
24 enterprises.

1 “(4) OTHER REGULATORY REQUIREMENTS.—

2 The regulations issued by the Finance Board under
3 paragraph (1) shall—

4 “(A) permit each Federal Home Loan
5 Bank to issue, with such rights, terms, and
6 preferences, not inconsistent with this Act and
7 the regulations issued hereunder, as the board
8 of directors of that Bank may approve, any 1
9 or more of—

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

15 “(ii) Class B stock, which shall be re-
16 deemable in cash and at par 5 years fol-
17 lowing submission by a member of a writ-
18 ten notice of its intent to redeem such
19 shares;

20 “(iii) Class C stock, which shall be
21 nonredeemable; and

22 “(iv) any other class of stock author-
23 ized by the board of directors of the Fed-
24 eral Home Loan Bank and approved by
25 the Finance Board, through such proce-

1 dures as the Finance Board may prescribe,
 2 which, if nonredeemable, may be des-
 3 ignated as permanent capital;

4 “(B) provide that the stock of a Federal
 5 Home Loan Bank may be issued to and held by
 6 only members of the Bank, and that a Bank
 7 may not issue any stock other than as provided
 8 in this section;

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

12 “(D) provide the manner of disposition of
 13 outstanding stock held by, and the liquidation
 14 of any claims of the Federal Home Loan Bank
 15 against, an institution that ceases to be a mem-
 16 ber of the Bank, through merger or otherwise,
 17 or that provides notice of intention to withdraw
 18 from membership in the Bank.

19 “(5) DEFINITIONS OF CAPITAL.—For purposes
 20 of determining compliance with the capital standards
 21 established under this subsection—

22 “(A) permanent capital of a Federal Home
 23 Loan Bank shall include (as determined in ac-
 24 cordance with generally accepted accounting
 25 principles)—

1 “(i) the amounts paid for the Class C
 2 stock and any other nonredeemable stock
 3 approved by the Finance Board;

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

7 “(iii) the retained earnings of the
 8 Bank; and

9 “(B) total capital of a Federal Home Loan
 10 Bank shall include—

11 “(i) permanent capital;

12 “(ii) the amounts paid for the Class A
 13 stock, Class B stock (excluding any
 14 amount treated as permanent capital
 15 under subparagraph (5)(A)(ii)), or any
 16 other class of redeemable stock approved
 17 by the Finance Board;

18 “(iii) consistent with generally accept-
 19 ed accounting principles, and subject to the
 20 regulation of the Finance Board, a general
 21 allowance for losses, which may not include
 22 any reserves or allowances made or held
 23 against specific assets; and

24 “(iv) any other amounts from sources
 25 available to absorb losses incurred by the

1 Bank that the Finance Board determines
 2 by regulation to be appropriate to include
 3 in determining total capital.

4 “(6) TRANSITION PERIOD.—Notwithstand-
 5 ing any other provisions of this Act, the re-
 6 quirements relating to purchase and retention
 7 of capital stock of a Federal Home Loan Bank
 8 by any member thereof in effect on the day be-
 9 fore the date of enactment of the Federal Home
 10 Loan Bank System Modernization Act of 1999,
 11 shall continue in effect with respect to each
 12 Federal Home Loan Bank until the regulations
 13 required by this subsection have taken effect
 14 and the capital structure plan required by sub-
 15 section (b) has been approved by the Finance
 16 Board and implemented by such Bank.

17 “(b) CAPITAL STRUCTURE PLAN.—

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

1 “(A) the board of directors determines is
 2 best suited for the condition and operation of
 3 the Bank and the interests of the members of
 4 the Bank;

5 “(B) meets the requirements of subsection
 6 (c); and

7 “(C) meets the minimum capital standards
 8 and requirements established under subsection
 9 (a) and other regulations prescribed by the Fi-
 10 nance Board.

11 “(2) APPROVAL OF MODIFICATIONS.—The
 12 board of directors of a Federal Home Loan Bank
 13 shall submit to the Finance Board for approval any
 14 modifications that the Bank proposes to make to an
 15 approved capital structure plan.

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

19 “(1) MINIMUM INVESTMENT.—

20 “(A) IN GENERAL.—Each capital structure
 21 plan of a Federal Home Loan Bank shall re-
 22 quire each member of the Bank to maintain a
 23 minimum investment in the stock of the Bank,
 24 the amount of which shall be determined in a
 25 manner to be prescribed by the board of direc-

tors of each Bank and to be included as part
of the plan.

“(B) INVESTMENT ALTERNATIVES.—

“(i) IN GENERAL.—In establishing the
minimum investment required for each
member under subparagraph (A), a Fed-
eral Home Loan Bank may, in its discre-
tion, include any 1 or more of the require-
ments referred to in clause (ii), or any
other provisions approved by the Finance
Board.

“(ii) AUTHORIZED REQUIREMENTS.—

A requirement is referred to in this clause
if it is a requirement for—

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

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

1 “(C) MINIMUM AMOUNT.—Each capital
 2 structure plan of a Federal Home Loan Bank
 3 shall require that the minimum stock invest-
 4 ment established for members shall be set at a
 5 level that is sufficient for the Bank to meet the
 6 minimum capital requirements established by
 7 the Finance Board under subsection (a).

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

20 “(2) TRANSITION RULE.—

21 “(A) IN GENERAL.—The capital structure
 22 plan of each Federal Home Loan Bank shall
 23 specify the date on which it shall take effect,
 24 and may provide for a transition period of not
 25 longer than 3 years to allow the Bank to come

1 into compliance with the capital requirements
 2 prescribed under subsection (a), and to allow
 3 any institution that was a member of the Bank
 4 on the date of enactment of the Federal Home
 5 Loan Bank System Modernization Act of 1999,
 6 to come into compliance with the minimum in-
 7 vestment required pursuant to the plan.

8 “(B) INTERIM PURCHASE REQUIRE-
 9 MENTS.—The capital structure plan of a Fed-
 10 eral Home Loan Bank may allow any member
 11 referred to in subparagraph (A) that would be
 12 required by the terms of the capital structure
 13 plan to increase its investment in the stock of
 14 the Bank to do so in periodic installments dur-
 15 ing the transition period.

16 “(3) DISPOSITION OF SHARES.—The capital
 17 structure plan of a Federal Home Loan Bank shall
 18 provide for the manner of disposition of any stock
 19 held by a member of that Bank that terminates its
 20 membership or that provides notice of its intention
 21 to withdraw from membership in that Bank.

22 “(4) CLASSES OF STOCK.—

23 “(A) IN GENERAL.—The capital structure
 24 plan of a Federal Home Loan Bank shall afford
 25 each member of that Bank the option of main-

1 taining its required investment in the Bank
 2 through the purchase of any combination of
 3 classes of stock authorized by the board of di-
 4 rectors of the Bank and approved by the Fi-
 5 nance Board in accordance with its regulations.

6 “(B) RIGHTS REQUIREMENT.—A Federal
 7 Home Loan Bank shall include in its capital
 8 structure plan provisions establishing terms,
 9 rights, and preferences, including minimum in-
 10 vestment, dividends, voting, and liquidation
 11 preferences of each class of stock issued by the
 12 Bank, consistent with Finance Board regula-
 13 tions and market requirements.

14 “(C) REDUCED MINIMUM INVESTMENT.—
 15 The capital structure plan of a Federal Home
 16 Loan Bank may provide for a reduced mini-
 17 mum stock investment for any member of that
 18 Bank that elects to purchase Class B, Class C,
 19 or any other class of nonredeemable stock, in a
 20 manner that is consistent with meeting the min-
 21 imum capital requirements of the Bank, as es-
 22 tablished by the Finance Board.

23 “(D) LIQUIDATION OF CLAIMS.—The cap-
 24 ital structure plan of a Federal Home Loan
 25 Bank shall provide for the liquidation in an or-

1 derly manner, as determined by the Bank, of
 2 any claim of that Bank against a member, in-
 3 cluding claims for any applicable prepayment
 4 fees or penalties resulting from prepayment of
 5 advances prior to stated maturity.

6 “(5) LIMITED TRANSFERABILITY OF STOCK.—

7 The capital structure plan of a Federal Home Loan
 8 Bank shall—

9 “(A) provide that—

10 “(i) any stock issued by that Bank
 11 shall be available only to, held only by, and
 12 tradable only among members of that
 13 Bank and between that Bank and its mem-
 14 bers; and

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

21 “(B) establish standards, criteria, and re-
 22 quirements for the issuance, purchase, transfer,
 23 retirement, and redemption of stock issued by
 24 that Bank.

1 “(6) BANK REVIEW OF PLAN.—Before filing a
2 capital structure plan with the Finance Board, each
3 Federal Home Loan Bank shall conduct a review of
4 the plan by—

5 “(A) an independent certified public ac-
6 countant, to ensure, to the extent possible, that
7 implementation of the plan would not result in
8 any write-down of the redeemable Bank stock
9 investment of its members; and

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

14 “(d) TERMINATION OF MEMBERSHIP.—

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

1 membership rights commensurate with continuing
2 stock ownership.

3 “(2) INVOLUNTARY WITHDRAWAL.—

4 “(A) IN GENERAL.—The board of directors
5 of a Federal Home Loan Bank may terminate
6 the membership of any institution if, subject to
7 Finance Board regulations, it determines
8 that—

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

12 “(ii) the member has been determined
13 to be insolvent, or otherwise subject to the
14 appointment of a conservator, receiver, or
15 other legal custodian, by a State or Fed-
16 eral authority with regulatory and super-
17 visory responsibility for the member.

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

21 “(i) shall surrender redeemable stock
22 to the Federal Home Loan Bank, and shall
23 receive in cash the par value of the stock,
24 upon the expiration of the applicable notice
25 period under subsection (a)(4)(A);

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

5 “(iii) shall not be entitled to any other
 6 rights or privileges accorded to members
 7 after the date of the termination.

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

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

16 “(ii) the date on which the member
 17 has provided notice of its intent to redeem
 18 such stock.

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

1 Bank shall return to the member all collateral
2 pledged to secure the indebtedness.

3 “(e) REDEMPTION OF EXCESS STOCK.—

4 “(1) IN GENERAL.—A Federal Home Loan
5 Bank, in its sole discretion, may redeem or repur-
6 chase, as appropriate, any shares of Class A or
7 Class B stock issued by the Bank and held by a
8 member that are in excess of the minimum stock in-
9 vestment required of that member.

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

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

21 “(f) IMPAIRMENT OF CAPITAL.—If the Finance
22 Board or the board of directors of a Federal Home Loan
23 Bank determines that the Bank has incurred or is likely
24 to incur losses that result in or are expected to result in
25 charges against the capital of the Bank, the Bank shall

1 not redeem or repurchase any stock of the Bank without
 2 the prior approval of the Finance Board while such
 3 charges are continuing or are expected to continue. In no
 4 case may a Bank redeem or repurchase any applicable
 5 capital stock if, following the redemption, the Bank would
 6 fail to satisfy any minimum capital requirement.

7 “(g) REJOINING AFTER DIVESTITURE OF ALL
 8 SHARES.—

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

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

1 “(h) TREATMENT OF RETAINED EARNINGS.—

2 “(1) IN GENERAL.—The holders of the Class C
3 stock of a Federal Home Loan Bank, and any other
4 classes of nonredeemable stock approved by the Fi-
5 nance Board (to the extent provided in the terms
6 thereof), shall own the retained earnings, surplus,
7 undivided profits, and equity reserves, if any, of the
8 Bank.

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

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

24 “(4) LIMITATION.—A Federal Home Loan
25 Bank may not make any distribution of its retained

1 earnings unless, following such distribution, the
2 Bank would continue to meet all applicable capital
3 requirements.”.

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