



REGULATORY INTERPRETATION 2000-RI-17

Date: September 8, 2000

Subject: Election of Directors of the Federal Home Loan Bank of Indianapolis

Request Summary:

The Federal Housing Finance Board (Finance Board) has received a number of inquiries concerning recent amendments to its regulations pertaining to the election of Federal Home Loan Bank (Bank) directors. Because of those inquiries, the Finance Board has determined to provide to each Bank written guidance on how the amendments are to be applied to the Bank, which is the purpose of this regulatory interpretation.

Background:

On June 23, 2000, the Board of Directors of the Finance Board adopted a final rule implementing the amendments made by the Gramm-Leach-Bliley Act, Pub. L. No. 106-102, 133 Stat. 1338 (Nov. 12, 1999) (GLB Act), regarding the election of directors of the Banks. 65 Fed. Reg. 41560 (July 6, 2000) (final rule). The final rule, which took effect on August 7, 2000, addresses the status of the 1999 director elections conducted by each Bank and how the terms of the elected directors are to be adjusted in order to stagger the board of directors, as required by the GLB Act.

Analysis and Interpretation:

The final rule includes a matrix for the Indianapolis Bank, which indicates that only three of the four elected directorships with terms commencing on January 1, 2001 may have a full three-year term; the remaining directorship, which must be from Indiana, is to be assigned a two-year term. The matrix also indicates that only three of the six elected directorships with terms commencing on January 1, 2002 may have a full three-year term; each of the remaining three directorships must have a one-year term. As to the class with terms commencing on January 1, 2002, the matrix assigns a three-year term to one directorship each from Michigan and from Indiana, and requires the board of directors of the Bank to determine which of those two states shall be assigned the remaining directorship with a one-year term. The board may make that determination on any reasonable basis. Accordingly, the first action that the board of directors of the Bank must take is to assign a one-year term to one of the directorships from either Michigan or Indiana, as indicated in the matrix, from the class of directorships with terms that commence on January 1, 2002. 12 C.F.R. § 915.17(a)(3), *as amended*.

After assigning the directorship with a one-year term to one of those two states, the board of directors next must determine the manner in which to fill the Bank directorships that have terms commencing on January 1, 2001. The final rule requires the Bank to conduct a new election for those directorships only if, for any state, there are not enough eligible candidates remaining from the 1999 election for that state (*i.e.*, those candidates who remain eligible to serve as a Bank director) to fill all of the elected directorships for that state that are to commence on January 1, 2001. Thus, the Bank must first determine whether the number of candidates from each state in the 1999 election who remain eligible to serve equals or exceeds the number of directorships for that state that are to commence on January 1, 2001. If so, then no new election is required. If not, then the Bank must conduct a new election for that state in 2000, in which election all directorships from that state that commence on that date would be included.

If no new election is required, then the board of directors, in its discretion, may determine whether to conduct new elections in 2000 (which would have to be for all states in which an elected directorship commences on January 1, 2001) or to declare elected those candidates who were elected in the 1999 elections, after confirming their eligibility to serve. If the board of directors were to adopt the results of the 1999 election, those results also would be used to determine which directors within a particular state are to be assigned to a reduced term. If the board were to conduct new elections in 2000, it would use the results from those elections to assign reduced terms. As the Bank has no non-guaranteed directorships at issue in this class of directorships, the provision that would require the use of the election results to assign non-guaranteed directorships does not apply to the Bank.

With respect to the four elected directorships that are to commence on January 1, 2001, three are assigned to Indiana, and one of those Indiana directorships is to have a two-year term. The final rule provides that if a Bank declares candidates elected without a vote because the number of candidates is equal to the number of directorships (which occurred in Indiana in 1999) then the board of directors shall assign a reduced term on the basis of the most recent election. 12 C.F.R. § 915.17(b)(1), *as amended*. As each of the three Indiana candidates in the 1999 election also was elected previously in the 1997 election, the results of the 1997 election are to be used in determining which Indiana director shall receive the two-year term. Based on our records, and assuming that each of the three directors-elect remain eligible, because Mr. Fehrenbach received the fewest number of votes in the 1997 election, he is to be assigned the directorship with the two-year term.

With respect to the directorships that are to commence on January 1, 2002, the candidates who receive the most votes in Michigan and in Indiana are to be assigned guaranteed directorships for a three-year term. Assuming no change in the designation of directorships among the states, the two directors-elect from Michigan who receive the third and fourth most votes must be assigned non-guaranteed directorships, each of which will be for a one-year term. With regard to the state to which the board of directors assigns a one-year term, as described above and which will be either Michigan or Indiana, the director-elect from that state who receives the second most votes in the 2001 election must be assigned that directorship, which will be a guaranteed directorship with a one-year term.

A Regulatory Interpretation applies only to the particular transaction or activity proposed by the requestor, may be relied upon only by the requestor, and is subject to modification or rescission by action of the Board of Directors of the Finance Board. 12 C.F.R. part 907.