



NAHB
NATIONAL ASSOCIATION
OF HOME BUILDERS



REGULATORY & HOUSING POLICY AREA

DAVID A. CROWE
Senior Staff Vice President

May 15, 2007

Federal Housing Finance Board
1625 Eye Street NW
Washington DC 20006
Attention: Public comments

Re: **Proposed Rule: Financial Interests of Appointive Directors**
72 FR 15627 (April 2, 2007)
RIN No. 3069-AB34; Docket No. 2007-05

Dear Sir or Madam:

On behalf of the 235,000 member firms of the National Association of Home Builders (NAHB), I welcome the opportunity to respond to the request for comment issued by the Federal Housing Finance Board (FHFB) with respect to the proposed rule regarding financial interests of appointive directors of Federal Home Loan Banks (FHLBanks). If adopted, the rule would permit appointive directors to own shares or other interests in certain investment vehicles and to engage in certain other business relationships with a FHLBank without violating the conflict of interest provisions of the Federal Home Loan Bank Act (Bank Act). NAHB supports the proposal and encourages the FHFB to adopt the changes as proposed.

Background

Under the Bank Act, an appointive director may not, during his or her term, hold shares or any other financial interests in any member of that FHLBank. The Bank Act does not define the terms "shares" or "financial interests" although legislative history indicates that Congress did not intend the conflict of interest provisions to preclude an appointive director from investing in a diversified mutual fund that in turn may own shares in a FHLBank member. Subsequently, the FHFB has provided guidance on a case-by-case basis and has issued regulations concerning appointive directors and conflicts of interest that supported this principle. In addition, the FHFB has permitted appointive directors to have loans and deposits at member institutions of a FHLBank, if such transactions occur in the normal course of business at market terms, and to maintain contractual relationships with a FHLBank member, if the amount involved is de minimus.

Recent regulatory changes in the selection process for appointive directors and developments in the financial services marketplace have raised questions regarding whether specific investments held by potential appointive directors would be barred and would have to be sold if the director candidate were to accept an appointment to a FHLBank board.

The current FHLBank director candidate application form, which has been recently codified, includes a section that requires disclosure of certain financial interests in a FHLBank. The proposed policy would clarify and codify the FHF's long-standing policy that financial interests in a FHLBank member acquired through ownership of shares of a diversified mutual fund or functionally similar investment vehicles are permissible holdings for an appointive director provided that the appointive director does not control or have involvement in investment or trading strategies for the holding. The proposal also sets out additional criteria to define when owning shares of a holding company, or having other types of financial interests or relationships with in a FHLBank member, would be permissible for an appointive director.

NAHB Position

NAHB is a strong supporter of the FHLBank System. The FHLBanks have established an impressive track record of providing liquidity for home mortgage lending by member institutions. In addition, more than 90 percent of all loans for residential land acquisition, development and construction (AD&C) come from commercial banks and thrifts, many of which are FHLBank members. Thus, NAHB regards the FHLBanks as a critical element of the housing finance system.

NAHB believes that it is extremely important that the boards of directors of the FHLBanks comprise individuals with the knowledge, experience and ability to understand and competently oversee and direct the complex activities and operations that are undertaken, and to vigorously pursue the housing mission of the FHLBanks. Consequently, NAHB feels it is important to include as many highly qualified individuals as possible in the pool of potential FHLBank appointive directors. The proposed rule serves that purpose by communicating the eligibility criteria regarding financial conflicts of interest in a clear, concise manner and with a high degree of certainty. NAHB further believes that the proposed rule fairly and appropriately permits candidates to engage in investments and business transactions that do not present conflicts of interest. The proposed changes are helpful in removing uncertainty and confusion that may otherwise discourage qualified candidates from applying for FHLBank director appointments. The revisions should also aid the FHLBanks in selecting and recommending skilled and experienced director candidates to the FHF for its consideration.

Conclusion

NAHB supports the efforts of the FHF to clarify and codify its policy on permissible financial interests of appointive directors. Such policy permits the FHF to exercise a reasonable degree of flexibility in appointing highly-qualified directors who might otherwise be barred or discouraged from serving on a FHLBank board. Thank you again for the opportunity to comment. NAHB is available to answer any questions you may have concerning this statement or to provide any additional information that may be needed.

Sincerely,



David A. Crowe
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Regulatory & Housing Policy