

Meeting with the President and Senior Management of the Federal Home Loan Bank of Pittsburgh

On June 23, 2006, the President, the General Counsel, and the Chief Financial Officer of the Federal Home Loan Bank of Pittsburgh (FHLBank) along with outside counsel met with staff of the Federal Housing Finance Board (Finance Board) to provide additional background information with regard to the FHLBank's comment letter on the Finance Board's proposed regulation addressing excess stock and retained earnings. The FHLBank President emphasized that the FHLBank was submitting its comments in a spirit of being constructive, that it embraced in principle many of the issues raised by the proposed rule and its comment letter was providing thoughts on the substance of that proposal. He urged the Finance Board to take the time to fully explore ideas before moving forward with a final rule in this very important area.

The principal subject raised at the meeting was the possibility of earmarking an FHLBank's retained earnings member-by-member so that, barring future losses, a member could have greater certainty in receiving those funds, at some point. For example, there was some discussion that a member's attributable interest in retained earnings could be distributed as Class B stock after some set period of time or upon some event (such as withdrawal); the stock would have the same attributes of Class B stock including the 5 year redemption period. The FHLBank explained that this concept was based on that of "attributable surplus" applied by the Farm Credit System. It felt that this approach could help overcome the sense that building retained earnings created a pure loss for members, given that members were unlikely to capture any tangible monetary benefit from higher levels of retained earnings. This approach could also help overcome some of the unfairness inherent in requiring current members to bear the full cost of building retained earnings even though there was no guarantee either that they would still be members when the retained earnings were needed to absorb future losses, if any, or that they could otherwise capture any benefit from those retained earnings. Thus, it could help reduce opposition to an FHLBank holding more retained earnings.