



Testimony of George L. Engelke, Jr. Chairman, President and Chief Executive Officer Astoria Federal Savings and Loan Association and Chairman, Federal Home Loan Bank of New York Before the Banking Committee of the United States Senate

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Mr. Chairman, Ranking Member Sarbanes, Members of the Senate Committee on Banking. My name is George L. Engelke, Jr. I am Chairman, President and Chief Executive Officer of Astoria Financial Corporation and its wholly-owned subsidiary Astoria Federal Savings. I joined Astoria in 1971, and I have served as the Chief Executive Officer of this organization since 1989.

I am an elected member of the Board of Directors of the FHLB-NY, having served on the Board since 1998. As of January 1 of this year, I also serve as its Chairman.

As part of my personal commitment to strengthening communities, I am a member of the board of the Community Preservation Corporation, and until recently served as its Chairman. In addition, I am a member of the Advisory Board of Neighborhood Housing Services of New York City. I also serve on the Thrift Institutions Advisory Panel to the Federal Reserve Bank of New York.

I am also a past Chairman, and currently a director, of the Community Bankers Association of New York State and a member of America's Community Bankers Government Affairs Steering Committee, the Government Affairs Council, and a former director of ACB.

I am delighted to have the opportunity to discuss the FHLBank System, where it is, and where it should be. Let me point out that I am here to testify in my role as an involved community banker. These opinions are my own. They will, at times, be in accordance with those of the Board of Directors of the FHLB-NY, and at times, they may not be.

About Astoria Federal

Now that I'm wearing my community banker hat, I'd like to tell you about Astoria Federal Savings. We are a \$23.4 billion thrift serving New York City and its surrounding suburbs. We are the fifth largest US thrift and the largest headquartered in New York State. As a leading community bank, we play a major economic role within the greater Long Island community, which has a population of well over 7 million-greater than 39 US states.

We provide retail banking services to individuals, families, and small businesses through 86 local branches from Southampton, Long Island, to Somers, NY, in Northern Westchester. We also originate mortgage loans through our local loan production offices, our extensive broker network in 23 states and the District of Columbia, and through correspondent relationships in 44 states and the District of Columbia.

Our 2,100 employees pride themselves on our highly personal approach to doing business, where good service, strong community relationships, and "putting people first" in all the communities we serve makes a real difference. It is our position that the stronger we make our communities, the stronger we are as a company.

AFS/FHLB-NY History:

Astoria Federal has been a member of the FHLB-NY since 1936. Through these many decades, Astoria Federal has utilized the FHLB-NY as a source of low-cost liquidity to fund the housing and economic development needs of dozens of local communities.

The FHLB-NY and the FHLBank System help maintain a competitive playing field, enabling a community bank, like mine, to continue to be part of the economic foundation of our nation. By providing a needed source of wholesale funding to help us manage liquidity, loan demand and interest rate risk, the FHLB-NY enables us to remain independent and continue as an economic engine in each community we help. This service is provided across our nation by the 12 FHLBs that comprise the FHLBank System to the 8,000 depository and portfolio lenders that are its members.

AFS Successes with AHP

At Astoria Federal, we are also active participants in the FHLB-NY's Affordable Housing Program. In fact, Astoria Federal is the third most successful recipient of AHP grants from the FHLB-NY district. I'd like to share with you some of our public/private successes:

Since the Affordable Housing Program began, Astoria Federal has sponsored 31 affordable housing grants. This has allowed us to subsidize 1,138 affordable housing units in our service area, with grants totaling over \$8.2 million. With, as an example, the median home price in Nassau County now at \$445,000, it's clear that there are many potential homebuyers who currently are being priced out of the market today. I'm sure every member of this committee, from Colorado to Connecticut, hears of these concerns from their own constituents. We are committed to improving this situation to help bring more families closer to realizing the American dream.

An outstanding example of the AHP's effectiveness is Broadway West, a senior housing project in Brentwood, New York. In this local housing initiative, Astoria Federal provided \$1.2 million in two AHP grants to the Long Island Housing Partnership to lower the construction costs. Because of the successful partnership, 114 decent and safe rental apartments have been made available to senior citizens with limited income, enabling seniors to remain in the community where they have raised their families.

Astoria Federal has also tapped the FHLB-NY's Community Investment Program. One of the projects we are most proud of is the \$2.5 million CIP advance we secured to renovate a wing of Western Queens Community Hospital, in Astoria, Queens, New York. I would like to commend Congress for authorizing the AHP and CIP Programs. Since their launching in 1990, the FHLB-NY and member lenders have used them to invest \$1.6 billion in New Jersey, New York, Puerto Rico, and the U.S. Virgin Islands.

We think these programs and other products offered by the FHLBank System make membership an extraordinary value to both the bank members and the communities they serve.

The Future of the FHLBs

The Committee has asked my opinion of where the FHLBs are and where they should be going. Overall, I believe they are exactly where they should be: supporting community banks in every city, town, and hamlet of our nation. The Committee has also asked me what I see for the future of the FHLBank System. I believe this question is really not about FHLBs, but rather about the future of our community banks.

For as long as we have community banks, the FHLBs should be there to help them fulfill their public policy mission. Congress has over the years encouraged a multi-layered financial services industry. As this continues the FHLBs will continue to play an important part in providing liquidity to community banks so the folks working on Main Street and living in the adjoining suburbs have a place to work and a place to call home.

From my perspective, which is certainly not unbiased, but I believe certainly well informed, maintaining both a strong and competitive financial services and housing industry is a public policy Congress and the Administration must continue to support.

The benefit of this policy was recently defined by United States Treasury Secretary John Snow who said in San Antonio to a gathering of bankers, you "... have been part of a phenomenal economic recovery and are helping to finance terrific economic growth. You are on the front lines, working closely with your customers to buy a new house or perhaps grow a small business. That's important work that has helped our economy prosper and has therefore made a real difference in people's lives. The people here in this room should be very proud... because you are very much a part of our country's economic recovery and strength. Whether it's home equity lines of credit or small-business start-up loans, you are providing the capital that enables terrific job-creating economic growth."

I believe Secretary Snow got it exactly right. And again, to emphasize the point, one of the key reasons why community banks are able to fulfill this role in our economy is because of the support and services they receive from FHLBs.

Mortgage Purchase Programs: MPF

The Committee asked me to address the mortgage purchase programs. The FHLB-NY believes that the mortgage purchase programs, if used prudently, gives community lenders an alternative to holding loans in portfolio or selling them to the secondary mortgage markets. However, at the FHLB-NY, management and the Board of Directors have chosen to focus the Bank on the business of providing a range of low-cost, low-risk advance products to our members. Over 75% of the FHLB-NY's assets are advances.

We recognize that a number of members have found Mortgage Partnership Finance[®] (MPF[®]) program to be an effective liquidity tool for their organizations. Accordingly, the FHLB-NY does offer MPF. Since 1999, the first year MPF was offered, the program has grown to \$1.2 billion, less than 2% of the FHLB-NY's \$83 billion balance sheet. We think that maintaining this balance sheet structure whereby MPF assets constitute only a small portion is consistent with the FHLB-NY's low-risk business model. Unrestrained growth in MPF assets would not be consistent. To ensure the FHLB-NY will continue to have the capacity to serve our participating member lenders, while prudently managing growth, caps have been established with respect to future MPF deliveries. Effective March 15, 2005, deliveries under future Master Commitments, for each participating lender, are limited to \$100 million annually. Existing commitments for larger amounts will not be renewed. The vast majority of participating member lenders will not be affected by this cap. By taking this action, we are building a firm foundation for continued availability and stability of MPF in this District.

Securitization

I would also like to comment on another issue that has been in the banking trade press lately: the idea of giving FHLBs the authority to securitize mortgage loans. My view is that this is an area that must be thoroughly studied and analyzed before any sort of prudent consideration can be given. In a \$925 billion FHLBank System with \$41.8 billion of member lenders' capital at stake through joint and several liabilities, it would be very dangerous to tinker with new authorities and new programs without understanding the full ramifications thereof, including usefulness, risks, and profitability.

Without question, approving the concept of including securitization authorization in any legislation moving through Congress at this time would not be prudent. Given the importance of community banking in our economy and the supporting role the FHLBs play, it is very important for the Congress and the Administration not to do anything that in any way would jeopardize the FHLBank System's ability to execute its fundamental mission of supporting housing by providing liquidity to members.

This matter is of great concern to the entire Board of Directors of the FHLB-NY. On March 17, the Board adopted a resolution urging Congress not to consider such a proposal at this time. **This resolution is attached** to my written statement.

Implementation of the Gramm-Leach-Bliley Act Of 1999

There is one issue I would like to cover with respect to the Gramm-Leach-Bliley Act. That is the new capital structure established by the Act. The Act replaces the FHLBank System existing subscription capital structure with a risk-based capital structure. We are aiming for an October 3, 2005, effective date for the capital exchange. The new plan essentially preserves the status quo. The same proportions of ownership of the capital stock between the existing plan and the new plan are approximately maintained in terms of geographic borders and in bank charter form. The new plan does strengthen the cooperative model by better correlating stock ownership with advances activities levels and would provide sufficient capital to conservatively manage the business.

The FHLB-NY is in the process of finalizing the capital plan. We expect to formally submit this plan to the Federal Housing Finance Board for approval in the next few weeks. We are hoping that the FHFB will approve the plan capital plan by June. If the FHFB does not act by then, it is quite possible that the October 3 exchange date will be delayed.

Multidistrict Membership

I would like also to comment on the multi-district membership issue that has been in the news from time to time. This is an issue that the FHLB-NY has supported. We believe it would be beneficial for the FHFB to permit limited multi-district membership given the change in the geographic landscape of banking since the Federal Home Loan Bank Act was passed as a Great Depression era piece of legislation

On this point, I applaud FHFB Chairman Rosenfeld's comments when he stated that he is considering additional guidance in this delicate area with respect to Affordable Housing Programs. Hopefully his approach will bring more common sense to the distribution of AHP grants within the FHLBank System when a large bank moves its charter to another FHLB district either voluntarily or involuntarily and yet retains a significant amount of business in the FHLB district it had left.

Consolidation

I am in favor of consolidation of the FHLB System. Consolidation would very effectively eliminate the current somewhat illogical structure whereby the twelve individual Banks in the System, with their independent management Teams and Boards, are jointly and severally liable for the varied activities of all of the Banks in the System. Consolidation would also automatically create appropriate centralization of some similar activities currently structured up to a dozen different ways. The final decision on this issue should be made by the individual Bank Boards and/or members.

GSE Regulatory Restructuring Legislation

Let me make clear that with respect to the issues of securitization, multi-district membership, and consolidation, it my firm belief they should not be included in any current GSE regulatory restructuring legislation. Even though I might support a stand on each of these issues, basic GSE regulatory restructuring legislation, excluding those controversial areas in need of substantial study and debate is most appropriate.

It is important that Congress pass GSE regulatory restructuring legislation to provide an independent, world-class regulator for all three of the housing Government Sponsored Enterprises. This new regulator should be empowered to act on many of the questions you have asked me to comment on. This will help to ensure strong and safe operations. Passage of GSE regulatory restructuring legislation will enable Fannie Mae and Freddie Mac to get back to fully focusing on their initial primary mission of providing orderly secondary mortgage markets and allow the FHLBank System to concentrate on its primary mission of providing low-cost liquidity to portfolio lending banks.

Specifically, within the legislation itself, I urge Congress to create a new GSE regulator that is truly independent and that is not subject to the congressional appropriations process. I urge that the regulator be funded in a manner that provides that the FHLBank System's assessments be allocated predominantly to the regulation and supervision of the FHLBank System and that Fannie Mae's and Freddie Mac's assessments be allocated predominantly to the regulation and supervision of Fannie Mae and Freddie Mac. And I urge that the new, independent regulator possess similar supervision and enforcement powers to those of federal bank regulators to maintain safety and soundness and guard against systemic risk.

With respect to the FHLBs, I would urge that the new regulator be organized with a strong emphasis on preserving the current statutory authorities and the cooperative structure of the FHLBank System, recognize the unique characteristics of the FHLBank System, and not impede or limit the FHLBank System's access to the capital markets.

When enacted, the new GSE regulator will bring certainty and calm to the markets, which will translate into a lower cost of funds and which, in turn, will result in lower cost mortgages for the American homeowner.

I thank the Committee for allowing me to participate in today's hearing.

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