

Federal Housing Finance Board's regulations;

Notice of annual adjustment of the limits on annual compensation for Federal home loan bank directors under section 7(i)(2)(B) of the Federal Home Loan Bank Act and § 918.3(a)(1) of the Federal Housing Finance Board's regulations;

Notice of annual adjustment of the maximum dollar limits on certain allocations by a bank of its annual required affordable housing program contributions under § 951.3(a)(1)(iii) and 951.3(a)(2) of the Federal Housing Finance Board's regulations.

SUMMARY: Notice is hereby given that the Federal Housing Finance Board (Finance Board) has adjusted the cap on average total assets that defines a "Community Financial Institution" (CFI) based on the annual percentage increase in the Consumer Price Index for all urban consumers (CPI-U), as published by the Department of Labor (DOL), pursuant to the requirements of the Federal Home Loan Bank Act (Bank Act) and the Finance Board's regulations. Notice is hereby given that the Finance Board has made similar adjustments to the limits on annual compensation for the Federal Home Loan Bank (Bank) directors, based on the CPI-U, as published by the DOL, pursuant to the requirements of the Bank Act and the Finance Board's regulations. In addition, notice is hereby given that the Finance Board has made similar adjustments to the maximum dollar limits on certain allocations by a Bank of its annual required Affordable Housing Program (AHP) contributions, pursuant to the requirements of the Finance Board's regulations.

FOR FURTHER INFORMATION CONTACT:

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SUPPLEMENTARY INFORMATION: Section 2(13)(B) of the Bank Act (12 U.S.C. 1422(13)(B)), and § 925.1 of the Finance Board's regulations (12 CFR 900.1) require the Finance Board, beginning in 2001, to adjust annually the cap on average total assets (CFI Asset Cap) set forth in section 2(13)(A)(ii) of the Bank Act (12 U.S.C. 1422(13)(A)(ii)) and § 925.1 of the Finance Board's regulations that defines a CFI, based on the annual percentage increase, if any, in the CPI-U, as published by the DOL.

Section 7(i)(2)(B) of the Bank Act (12 U.S.C. 1427(i)(2)(B)) and § 918.3(a)(1) of the Finance Board's regulations (12 CFR 918.3(a)(1)), require the Finance Board, beginning January 1, 2001, to make similar annual adjustments to the annual compensation limits set forth in section 7(i)(2)(A) of the Bank Act (12 U.S.C. 1427(i)(2)(A)) and § 918.3(a)(1), for members of the boards of directors of the Banks.

Section 951.3(a)(1)(iii) of the Finance Board's regulations (12 CFR 951.3(a)(1)(iii)) requires the Finance Board, beginning in 2003, to make similar annual adjustments to the maximum dollar limits set forth in § 951.3(a)(1)(i), on the amounts that a Bank may set aside annually from its annual required AHP contributions for the current year and the subsequent year, towards homeownership set-aside programs. In addition, § 951.3(a)(1)(iii) of the Finance Board's regulations (12 CFR 951.3(a)(1)(iii)) requires the Finance Board, beginning in 2003, to make similar annual adjustments to the maximum dollar limits set forth in § 951.3(a)(1)(ii), on the amounts that a Bank may set aside annually from its annual required AHP contributions for the current year and the subsequent year, towards an additional first-time homebuyer set-aside program.

Section 951.3(a)(2) of the Finance Board's regulations (12 CFR 951.3(a)(2)), requires the Finance Board, beginning in 2002, to make a similar annual adjustment to the maximum dollar limit set forth in § 951.3(a)(2), on the amount that a Bank may allocate from its annual required AHP contribution for the subsequent year to the current year's competitive application program.

For purposes of the CFI Asset Cap, the Finance Board is required to publish notice by **Federal Register** of the CPI-U-adjusted Cap. See 12 CFR 925.1. For purposes of the Banks' board of directors annual compensation limits, the Finance Board is required to publish notice, by **Federal Register**, distribution of a memorandum or otherwise, of the CPI-U-adjusted limits on such compensation. See 12 CFR 918.3(a)(1). For purposes of the maximum dollar limits on Banks' allocations from annual required AHP contributions, the Finance Board is required to publish notice, by **Federal Register**, distribution of a memorandum or otherwise, of the CPI-U-adjusted maximum dollar limits.

The annual adjustments of the existing CFI Asset Cap, annual Bank director compensation limits and maximum dollar limits on Bank allocations from annual required AHP contributions, effective January 1 of a particular calendar year, reflect the

percentage by which the CPI-U published for November of the preceding calendar year exceeds the CPI-U published for November of the year before the preceding calendar year (if at all). For example, the adjustments of the limits effective January 1, 2004 are based on the percentage increase in the CPI-U from November 2002 to November 2003. The CFI Asset Cap is rounded to the nearest million dollars, the annual compensation limits are rounded to the nearest dollar and the limits on allocations from AHP contributions are rounded to the nearest \$100,000.¹

The Finance Board has determined that it is appropriate to use data from November rather than waiting for the December data to become available so that the Banks can be notified of the adjusted CFI Asset Cap, annual Bank director compensation limits and AHP maximum dollar allocation limits as close to the January 1 effective date as possible. Other Federal agencies do not rely on December data, which is published in mid-January, when calculating annual inflation adjustments and, as a result, are able to announce their adjustments prior to the effective date of January 1.

The DOL encourages the use of CPI-U data that has not been seasonally adjusted in "escalation agreements" because seasonal factors are updated annually and seasonally adjusted data are subject to revision for up to five years following the original release. Unadjusted data are not routinely subject to revision, and previously published unadjusted data are only corrected when significant calculation errors are discovered. Accordingly, the Finance Board is using data that has not been seasonally adjusted to calculate the new CFI Asset Cap, annual Bank director compensation limits and AHP maximum dollar allocation limits.

The unadjusted CPI-U increased 1.8 percent between November of 2002 and November of 2003. Based on this data, pursuant to the requirements of § 925.1, the Finance Board has adjusted the CFI Asset Cap from the 2003 limit of \$538 million to \$548 million, effective January 1, 2004. The Finance Board arrived at the adjusted limit of \$548 million by rounding to the nearest million.

Pursuant to § 918.3(a)(1), based on the 1.8 percent increase in the unadjusted CPI-U, the Finance Board has adjusted

¹ All adjusted limits referred to in this notice have been rounded to some dollar level. However, the calculations of new limits are based on cumulative CPI-U changes applied to the limits as they first appeared in finance Board regulations, and hence are not distorted over time by rounding.