



August 31, 1999

Mr. John T. Kehoe
Assistant Vice President/Human Resources Manager
Federal Home Loan Bank of Seattle
1501 Fourth Avenue
Seattle, Washington 98101-1693

NO-ACTION LETTER: Compensation of Federal Home Loan Bank President (1999-NAL-03)

Dear Mr. Kehoe:

We are in receipt of your letter to Jennifer R. Salamon, Office of Policy Research and Analysis, dated July 30, 1999, in which you inform the Federal Housing Finance Board (Finance Board) that the board of directors of the Federal Home Loan Bank (FHLBank) of Seattle (Seattle Bank) increased both the base salary and the incentive compensation percentages of Norman B. Rice, President of the Seattle Bank, effective August 1, 1999. Your letter asserts the Seattle Bank's belief that its actions were consistent with Finance Board regulations. For purposes of this response, we are treating your July 30th letter as a request for a No-Action Letter pursuant to parts 902 and 903 of the Finance Board regulations.

Statement of Facts

Norman B. Rice was selected to replace outgoing President James T. Faulstich at the November 1998 meeting of the board of directors of the Seattle Bank. At that time, Mr. Rice's base salary was established at \$250,000, with the understanding by the board of directors that it would be reviewed in July 1999. Mr. Rice assumed the position of President in February 1999.

In accordance with the requirements of 12 C.F.R. § 932.19 (b)(1)(i) of the Finance Board regulations, the 1999 base salary cap for the Seattle Bank President was established at \$345,000. Prior to the July 1999 review of Mr. Rice's compensation, the Seattle Bank obtained information from other FHLBanks concerning FHLBank presidents' base salaries and incentive compensation levels, and determined that Mr. Rice's level of compensation was below that of the other FHLBank presidents. Consequently, the Seattle Bank's board of directors voted to raise Mr. Rice's base compensation to \$300,000, effective August 1, 1999.

In addition, the board of directors increased the incentive award percentage range for Mr. Rice, also effective August 1, 1999. Prior to that action, the incentive award ranges for all Seattle Bank employees, including the President, were a minimum of 5 percent, a midpoint of 15 percent, and a maximum of 25 percent. As a result of the Seattle Bank's action, the ranges for Mr. Rice were raised to a minimum of 10 percent, a 20 percent midpoint, and a 35 percent maximum; the ranges for all other employees remained the same. Consequently, the President of the Seattle Bank now has the opportunity to receive incentive compensation at levels that differ from those offered to other senior management personnel.

Conclusions

With respect to the determination by the Seattle Bank's board of directors to raise Mr. Rice's base compensation from \$250,000 to \$300,000, based upon the facts presented in your letter, which include both that the new base compensation is still below the established salary cap, and that such increase formed part of the consideration of Mr. Rice's acceptance of employment as the Seattle Bank's President, and without necessarily concurring in your analysis, Finance Board staff will not recommend to its Board of Directors that supervisory action be taken against the Seattle Bank, nor will Finance Board staff undertake any such supervisory action. This letter expresses only the position of Finance Board staff, and may be modified or superseded by the Board of Directors of the Finance Board. Because this letter is based upon your representations, any change in the facts or circumstances from those presented may warrant a staff recommendation that the Finance Board take appropriate supervisory action.

With respect to the Seattle Bank's determination to increase the incentive compensation percentage ranges applicable to Mr. Rice, it is the view of Finance Board staff that such amendment violates 12 C.F.R. § 932.19 (c)(2)(iv) of the Finance Board rules, which requires each FHLBank that intends to offer incentive compensation to establish the targets and performance measures of such plan by January 31 of the performance period. By statute, the Finance Board must approve the compensation paid to an FHLBank President, and only those arrangements that adhere to all requirements of section 932.19(c) satisfy the statutory requirements. If the Seattle Bank wishes to receive a No-Action letter with respect to revising the percentage ranges for Mr. Rice's incentive compensation for this year, it should submit a request for a No-Action Letter setting forth the reasons for the violation of the provisions of section 932.19(c) that require such ranges to be established by January 31 to the Finance Board for consideration, in accordance with part 903 of the Finance Board rules.

Sincerely,

/s/ William W. Ginsberg

William W. Ginsberg
Managing Director

cc: Mitch Berns
James L. Bothwell
Jennifer R. Salamon