Clinton Jones, General Council
Federal Housing Finance Agency
400 Seventh Street, SW
Washington, DC 20219

January 31, 2025

Re: Proposed Rule on Federal Home Loan Banks' Boards of Directors and Executive Management

Dear Mr. Jones,

The Coalition for Federal Home Loan Bank Reform (CFR), as well as additional undersigned organizations, thank the Federal Housing Finance Agency (FHFA) for its comprehensive efforts over the last two years to clarify the mission of the Federal Home Loan Bank (FHLB) System and hold this Congressionally-chartered and publicly-subsidized GSE more accountable to its public mission of supporting fair and affordable housing and community development.

Since the FHLB System was founded over ninety years ago, it has strayed from its public mission due to a range of factors – including the inherent public-private tensions in the GSE model, limited public oversight, and large transformations in housing finance and FHLB membership. As a result, the FHLB System has become overly focused on maximizing System and member profits, while it has neglected its capacity and potential to deliver innovative programs, financing, and housing-specific liquidity amidst a national housing crisis. To reorient the System to its public mission – and ensure an adequate and efficient allocation of the estimated $7.3 billion in annual subsidy by the federal government – the System's corporate governance structure is an important part for reforms.[1]

This comment letter represents the views of the *Coalition for Federal Home Loan Bank Reform*, a non-partisan national coalition of organizations dedicated to supporting reforms

[1] For this federal subsidy calculation, see Congressional Budget Office, March 2024: https://www.cbo.gov/publication/60064

that align the FHLBs with their mission to support fair and affordable housing and community development, as well as other civil rights and housing advocates.[2]

Main recommendations:

1. FHFA should ***specify additional mission-focused areas of expertise that qualify public interest independent directors***, including fair housing, tribal housing, and community development. We also recommend FHFA to specify minimum years of work experience and/or leadership experience: we believe that only having previous board membership experiences in specified domains should not be sufficient to qualify as public interest independent director.
2. In its list of qualifying experiences for regular independent directors, FHFA should add technical housing and community development expertise. Specifically, we suggest adding ***technical expertise on affordable housing lending, CDFI lending, and climate finance for regular independent directors.***
3. FHFA should ensure board balance and impartiality, focused on finding a balance between GSE mission achievement and member profits. We propose it can do so by ***rebalancing the appropriate proportions of independent and membership directorship on each board.***
4. We support FHFA's proposed Conflict of Interest policy covering all FHLB employees.
5. FHFA should ***put limits on the currently excessive executive compensation*** at the FHLBs and require the Banks ***to include incentive-based compensation based on housing and community development-related mission achievement***.

I. Specifying Expertise for "Public Interest" Independent Directorships

We think it is extremely important to have truly independent voices on each Bank's boards – those who are not subject to conflicts of interest because of the corporate financial interests pursued by membership organizations who are also shareholders in the System. We support FHFA in its proposal to better codify criteria to determine whether individuals have adequately "represented' consumer or community interest. In the current rule, the Bank Acts states:

[2] The Coalition includes 17 national advocacy organizations. See https://www.fhlbreform.org/

"Each Bank shall determine the number of public interest directorships to be included among its authorized independent directorships, provided that each Bank shall at all times have at least two such directorships" [3]

"Each public interest independent director and each nominee for a public interest directorship shall have more than four years of experience representing consumer or community interests in banking services, credit needs, housing or consumer financial protection." [4]

In this listing of qualifications, we suggest that the FHFA explicitly adds "fair housing," "tribal housing," and "community development" experience to the list. We also believe that previous years of board membership experiences related to these consumer and community interests should *not* be sufficient, but that qualifying directors should have shown leadership working directly on these issues.

II. Add Housing Technical Expertise to Regular Independent Directorships

FHFA also sought input on expanding the list of qualifying experiences for regular independent directors. We urge FHFA to add technical expertise relating to affordable housing lending, CDFIs, and climate finance – after all, these comprise key mission-focused activities of the FHLBs and this prioritization of mission should be reflected in Board expertise and focus as well. Specifically:

- Expertise on affordable housing lending. This may include experience administering down payment assistance programs, housing repair, multifamily construction lending, and other types of activities generally funded by FHLB AHP grants.

- Expertise on CDFIs and CDFI lending needs, notably CDFIs involved in single-family and/or multifamily lending and construction, manufactured housing, community land trusts, tribal housing lending as well as community development lending.

- Expertise in climate finance, notably related to resiliency investments and mitigating systemic climate risk through strategic investments. Bringing insights on systemic risks and opportunities to the FHLB system as it relates to climate risk and finance.

While important, we believe that information technology and security, as well as artificial intelligence expertise could be sought from within the membership Directorship on the board – many of whom have directly integrated these types of technologies in lending

[3] 12 CFR 1261.7(e), see https://www.ecfr.gov/current/title-12/part-1261#p-1261.7(e)
[4] 12 CFR 1261.7(e)(2), see https://www.ecfr.gov/current/title-12/part-1261#p-1261.7(e)(2)

workflows already. We encourage the FHLBs to seek out expertise in affordable housing lending, CDFI lending, and climate finance in member directorships as well.

III. Ensuring Board Impartiality and Balance

While not raised by the current proposed rule, we also think it is paramount that FHFA looks closely at ways to better ensure Board impartiality and balance.

Currently, only a minimum of two directors on each board need to qualify as "public interest" independent directors. Moreover, the Bank Act states that the FHFA Director will "designate at least a majority, but no more than 60 percent, of the directorships as member directorships and the remainder as independent directorships." [5] This means that membership financial interest will always be dominant on the boards of this GSE.

Given the importance of Board impartiality, we think that a greater share of board members should be independent directors, including "public interest" independent directors. We propose a minimum of 3 "public interest" independent directors, and an overall 50/50 split between independent and member directors as a fairer balance, and a way to better balance this GSEs public mission and private interests. Having member directors always in the majority diminishes the focus of this GSE on its public interest and mission.

IV. Conflict of Interest Policy Covering All Bank Employees

We support this clarification and expansion of the conflict of interest policy proposed by FHFA, as applied to all employees in the FHLB system.

V. Executive Compensation of Bank Leadership

The current proposed rulemaking does not address executive compensation of the System's leadership. However, we urge FHFA to examine and address this issue. We believe that aligning executive compensation with the System's mission focus is essential for achieving a better balance between pursuing profits and mission achievement.

The FHFA has established the following principles for the FHLBanks in setting executive compensation policies and practices:

"• executive compensation must be reasonable and comparable to that offered to executives in similar positions at other comparable financial institutions;
• executive incentive compensation should be consistent with sound risk management and preservation of the par value of the FHLBank's capital stock;

[5] 12 CFR 1261.3(a), see https://www.ecfr.gov/current/title-12/part-1261#p-1261.3(a)

• *a significant percentage of an executive's incentive-based compensation should be tied to longer-term performance and outcome-indicators;*
• *a significant percentage of an executive's incentive-based compensation should be deferred and made contingent upon performance over several years; and*
• *the Board of Directors of each FHLBank and the Office of Finance should promote accountability and transparency with respect to the process of setting compensation.*" [6]

Currently, the FHLB executive pay violates the "reasonable and comparable to executives in similar positions" stipulation by FHFA. In 2023, FHLBank presidents earned on average $2.9 million. The President of the FHLBank of Indianapolis made the highest amount, a total compensation package of $4.4 million in 2023. In conjunction, the Presidents took home $32 million, just in executive compensation for the year. The table below shows an overview of the compensation of all FHLB Presidents in 2023.[7]

FHLBank	**2023 President Salary**	**2023 Total President Compensation**
Boston	$913,500	$3,192,188
New York	$1,166,610	$3,404,214
Pittsburgh	$1,039,302	$2,466,416
Atlanta	$975,000	$2,664,499
Cincinnati	$995,000	$3,552,592
Indianapolis	$1,028,294	$4,352,235
Chicago	$975,000	$2,895,762
Des Moines	$1,050,566	$2,240,160
Dallas	$1,026,104	$2,286,199
Topeka	$900,000	$2,553,542
San Francisco	$964,600	$2,381,029
Total President Salary and Compensation	*$11,033,976*	*$31,988,835*

[6] P. S-13, 2023Q4 FHLB Financial Report, https://www.fhlb-of.com/ofweb_userWeb/resources/2023Q4CFR.pdf
[7] P.S-14, 2023Q4 FHLB Financial Report, https://www.fhlb-of.com/ofweb_userWeb/resources/2023Q4CFR.pdf

The 11 FHLBs in many cases only have 1 branch location, and Presidents oversee a few hundred employees at most. The FHLBs make money with a simple business model of advance lending and managing an investment portfolio – again, unlike complexities found at large, global, banking institutions, for example. A more appropriate comparison would be the compensation packages of the Presidents of the Federal Reserve System branches – who in fact oversee many more employees, more local branch locations, and activities with a higher degree of risk. But, as research by Brookings has found, in 2022 FHLB Presidents made on average more than four times that of Federal Reserve Regional Bank Presidents salaries, while managing roughly one sixth the number of employees.[8] Another comparison would be CEO base salary rate at GSEs Fannie Mae and Freddie Mac – institutions with each around 8000 employees, much more than the FHLBs -- on which FHFA has put an annual cap of $600,000.[9]

The Coalition argues that FHFA as regulator should place limitations on the overall compensation packages of the 11 Presidents, as more appropriate for a GSE with a public mission and given the limited complexity of the FHLBs. Similarly, FHFA should examine "reasonable" executive compensation to board members as well: in 2023, the average Board Chair received $289,405 in compensation, while the System overall paid $3,183,488 that year to all its Board chairs.[10] We believe that these excessive compensation practices, especially when juxtaposed to the FHLBs' lackluster affordable housing contributions, are antithetical to the mission of the System.[11]

Another principle of sound compensation practices, set by FHFA, is that "*a significant percentage of an executive's incentive-based compensation should be tied to longer-term performance and outcome-indicators."* Given the importance of mission achievement for FHLBs, we urge that FHFA tie incentive-based pay for the Presidents directly to mission achievements, rather than only outcome-indicators based on advance volume. For example, these could include quantitative indicators such as # of new housing programs launched, Community Investment Cash Advance (CICA) and Community Investment Program (CIP) usage by members, and the share of advance-lending that goes to mission-focused members (notably HFAs, small community banks, and CDFIs).

*

[8] Aaron Klein, Kathryn Judge, and Alan Cui, Brookings, August 2024: https://www.brookings.edu/articles/how-to-fix-federal-home-loan-banks/
[9] Freddie Mac 2023 Form 10-K, p. 245, https://www.freddiemac.com/investors/financials/pdf/10k_021424.pdf
[10] P. S-34, 2024Q3 FHLB Financial Report, https://www.fhlb-of.com/ofweb_userWeb/resources/2024Q3CFR.pdf
[11] See also Senator Cortez-Masto's letter to Mr. Malberg, July 2024: https://www.cortezmasto.senate.gov/wp-content/uploads/2024/07/CortezMasto_FHLB_Letters_Jul_30_2024.pdf

To truly reorient the System towards its public mission, and to ensure that the estimated $7.3 billion in annual subsidy that the federal government provides to the System are used appropriately – rather than merely subsidize corporate profits – the System's corporate governance structure is a key part of reforms. After all, the expertise and incentive-structure prioritized in governance will shape the overall priorities and directions of the Banks. Consequently, setting clear guidelines for the types of expertise valued on the Boards as well as aligning executive compensation with mission-based limits and incentives should be part of reforms. We thank the FHFA for starting to address these governance issues in the current proposed rule on Boards of Directors and Executive Management.

If you have any questions, please contact Sharon Cornelissen at scornelissen@consumerfed.org. Thank you for your consideration.

Sincerely,

Consumer Federation of America
Americans for Financial Reform
Center for Community Progress
Community Opportunity Alliance
Coastal Enterprises, Inc
The Greenlining Institute
Grounded Solutions Network
The Housing Assistance Council
Local Initiatives Support Coalition
National American Indian Housing Council
National Consumer Law Center (on behalf of its low-income clients)
National Community Reinvestment Coalition
National Community Stabilization Trust
National Fair Housing Alliance
National Housing Resource Center
National NeighborWorks Association
Rebuilding Together
Rise Economy
Woodstock Institute