



MORTGAGE BANKERS ASSOCIATION

August 3, 2021

Sandra L. Thompson
Acting Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Executive Compensation at the Regulated Entities

Dear Acting Director Thompson:

The Mortgage Bankers Association (MBA)¹ thanks the Federal Housing Finance Agency (FHFA) for the opportunity to respond to its request for input (RFI)² regarding executive compensation at Fannie Mae and Freddie Mac (the Enterprises) and the Federal Home Loan Banks (FHLBs). We appreciate FHFA's evaluation of the current executive compensation structure in an effort to ensure compensation is reasonable and comparable to that of other large financial services companies, while also considering the obligations these institutions have to operate in the public interest.

The greatest asset of these institutions is their human capital, so executive compensation must be set at a level sufficient to attract and retain top-level talent. It also is critical that compensation programs, and in particular incentive structures within these programs, foster competitive, liquid, efficient, and resilient national housing finance markets while affirmatively promoting safety and soundness objectives.

MBA believes, therefore, that FHFA should take a measured approach to executive compensation with a goal of striking the appropriate balance between these two requirements – that is, the *level* of compensation should be predicated on attracting and

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 330,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 1,900 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

² Federal Housing Finance Agency, "Executive Compensation at the Regulated Entities," June 10, 2021. Available at: <https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/RFI-Exec-Comp-at-the-Regulated-Entities.pdf>

retaining talented executives with industry expertise, while the *structure* of this compensation should encourage prudent risk management and financial stewardship.

MBA has long supported efforts to implement reforms to the Enterprises and to move them closer to a state in which they can safely exit conservatorship. Following the implementation of necessary reforms, as shareholder-owned companies subject to robust regulation and supervision, the Enterprises will be well positioned to continue to provide stability and liquidity to the housing market.

While the transition from conservatorship to full ownership by non-government shareholders will be a major shift for the Enterprises in many ways, their core functions and missions will remain unchanged, and the same high-quality staff will be necessary to carry out these duties. Any compensation program established under conservatorship should be structured to function equally well for the Enterprises as shareholder-owned companies in a post-conservatorship state.

Given their significant roles in the market, it also is important for the Enterprises to be innovative and responsive to market trends and needs. High-quality staff, once again, will enable the Enterprises to continue to develop new products, processes, and systems that will benefit consumers and market participants in a continuously evolving industry. The Enterprises should have sufficient flexibility to offer competitive levels of compensation in order to attract and retain the executives needed to promote this innovation.

The ability to offer competitive compensation also may contribute to the overall stability of the Enterprises from an organizational standpoint. Many market participants have been concerned with the high rate of turnover among senior executives at the Enterprises in recent months – specifically the impact these changes can have on consistent decision making and business processes. While this turnover may or may not be related directly to compensation, the presence of competitive compensation could serve as a retention tool enabling the Enterprises to maintain talent in these critical senior roles.

MBA's advocacy for structural reforms of the Enterprises relative to the pre-2008 period has included changes to the manner in which they are regulated by FHFA, as well. MBA has called for "utility-style regulation" of the Enterprises, which would, among other things, allow FHFA to limit excessive earnings growth or market share targets. One of the ways in which FHFA could achieve this objective would be to ensure the structure of executive compensation at the Enterprises does not encourage or reward aggressive risk taking or actions that prioritize short-term gains over long-term stability. Specific requirements could include the use of "at-risk" deferred salary or bonuses and incentives based on factors related to stability and mission over an extended time horizon, rather than quarterly earnings.

Much like the Enterprises, the retention of high-quality staff should be of the utmost importance for the FHLBs. The FHLBs serve a critical mission by providing stable, reliable

liquidity to their member institutions, which allows those member institutions to support affordable housing and community investments. While the FHLBs are unique in their organizational structure and mission, a similar balance between competitive compensation and safety and soundness must be achieved.

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MBA believes FHFA should regulate and oversee executive compensation at the Enterprises and the FHLBs through the dual lenses of ensuring high-quality human capital and encouraging safety and soundness. The regulated entities should be permitted to offer attractive compensation packages that are competitive with similar private sector entities, while being required to structure that compensation in a manner that is aligned with the Enterprises' public interest goals -- safe and sound operations and a continued focus on affordable housing duties and missions.

We thank FHFA for the opportunity to comment and look forward to our continued engagement on a wide variety of critically important housing finance issues.

Sincerely,



Robert D. Broeksmit, CMB
President and Chief Executive Officer
Mortgage Bankers Association