II. Federal Home Loan Banks

FHFA invites public input on any of the foregoing issues (e.g., compensation framework, fixed versus deferred compensation, interest on deferred compensation, incentive compensation and relevant comparators) specifically in the context of the FHLBanks, reflecting their different size, structure, statutory framework, and risk profile versus those of the Enterprises. In particular, FHFA also invites comments on the following:

18. How, if at all, should FHFA consider the fact that the FHLBanks generally have a monolithic business model, extending collateralized advances and purchasing mortgages that are also credit enhanced, when compared to their commercial peers? Currently, FHFA considers the other FHLBanks to be the primary comparator group when evaluating a FHLBank's compensation requests. Do you agree or disagree with this approach? Why or why not?

FHFA's assessment regarding FHLBank's business model is correct. Furthermore, FHLBank's business is uncomplicated and unsophisticated by design given the Government-Sponsored Entity (GSE)/Government-Related Entity (GRE) nature of the business and the choices made by the Board of directors and executives running the FHLBanks. With that said, it would be unwise and unreasonable to compare FHLBank's business model which per the FHFA is "a monolithic business model, extending collateralized advances and purchasing mortgages that are also credit enhanced" to that of commercial banks. Additionally, the joint and several liability of the Consolidated Obligations issued by the FHLBanks and the expectation that the US Government (Treasury) would intervene in the event of a default (implicit guarantee) make the business model very simplistic, uncomplicated and more importantly, relatively riskless unless the banks are egregiously mismanaged. To elaborate more on this, commercial banks that the FHLBanks benchmark executive compensation to, includes regional banks (such as fifth-third, M&T, Regions, etc.), national banks (US Bank), global banks (Chase, Wells, Bank of America, Citi, etc.) and investment banks (Goldman Sachs) which are much complex business models. These commercial banks have much more complicated operations including branch operations in multiple jurisdictions (states and countries); offer a wide range of products and services ranging from cash advances to SBA loans to multibillion dollar project loans, plain vanilla deposit operations to billion-dollar investment banking operations; billion-dollar forex businesses; complex derivatives operations including rates, equity, forex, commodity, weather, etc.

Another very important point to consider is the fact that unlike most commercial banks, FHLBank's stock is not listed and thereby misses a vital feedback mechanism which rewards good performance and punishes poor performance. To benchmark FHLBank executives' pay to these commercial bank executives and or divisional heads would no doubt result in inflating FHLBanks executives compensation across all lines including Chief Executive Officer, Chief Finance Officer, Chief Technology Officer, Chief Information Officer, Chief Compliance Officer, Chief Risk Officer, Chief Business Officer, Chief Human Resources Officer, Chief Audit Officer, Chief Human Investment Officer, Chief Accounting Officer, Treasurer, etc. For this reason, should FHLBanks executive pay be compared to its commercial bank peers or group/section/regional heads, a rationalization of the executive pay to account for the nature of the operations including size of the balance sheet, number of clients/accounts, branches, range of products and services, head count, profitability, etc. is warranted. There also ought to be a mechanism to normalize the pay across the different levels of the FHLBanks as it is difficult to comprehend how a chief executive of a GSE/GRE such as the FHLBanks could earn a total compensation that is about 100 times the salary of the least paid employee. Additionally, a review ought to take place on the pension plans.

I find the FHFA's current practice of comparing one FHLBank's compensation request to another FHLBank(s) to be troubling as it creates a race to the top as it relates to executive compensation or a race to the bottom as it relates to retained earnings (capital buffer), dividends and shareholder value. Additionally, as the FHFA knows too well, not all FHLBanks are managed alike which is evident in the FHLBanks financial returns, risks, etc.

In closing, I would challenge the FHFA and or the FHLBanks to identify instances of any executive who left the FHLBanks voluntarily in the last 10 years to take on a comparable executive role at a commercial bank from the peer group. I consider this to be the true test of the validity of the compensation benchmarking.

19. What is the appropriate role of incentive compensation for FHLBank executive officers? Are there metrics or limits that would be appropriate for FHFA to consider in evaluating FHLBank incentive compensation structures, for example, to avoid incentivizing excessive risk-taking?

As elaborated under 18 above, there should be a rationalization and normalization of the peer groups executive compensation across the factors that differentiates the FHLBanks with the commercial banks. These factors include scale and complexity of the operations, physical presence across multiple jurisdictions, branch network, headcount, volume of business and client accounts, etc.

Given that the FHLBanks operate a very uncomplicated business model relative to commercial banks that are held out by the FHLBanks to be its peers (only for executive pay and not for bank performance!), it would be reasonable that the executive compensation structure reflects this important factor, which on the face of it should result in a lower pay for a FHLBank executive relative to commercial bank executives and section/regional heads.

While there can be multiple metrics to incentivize compensation, it is clear that the current metrics for certain FHLBanks aren't reasonable for the simple reason that executive compensation including bonus has increased or maintained even during time that FHLBanks' performance has deteriorated – e.g. in 2020 and 2021 the FHLBanks writing off of large amounts of purchase premiums from Acquired Mortgage Assets (AMA) portfolios.

I propose that total executive compensation be capped much like Fannie Mae and Freddie Mac under conservatorship, and also be set at a multiple of the lowest paid employer. The current multiple at certain FHLBanks which is close to or above 100 is unethical for a GSE/GRE.

20. How should the FHLBanks' cooperative ownership structure affect FHFA's review of compensation proposals? How should FHFA weigh deference to compensation decisions proposed by a FHLBank's board of directors (which are presumed to represent the views of its customer/owners) against its statutory mandate to prevent any compensation that is not reasonable or comparable?

See my responses to #18 above.

21. Which factors should the Director consider when determining whether FHLBank employment involves "similar duties and responsibilities" in "other similar businesses"?

Se 18 above.
It should be noted that the Directors appointed to the Board of FHLBanks is a reflection of the membership it serves - which would imply that for the most part FHLBanks with larger/complex membership will have more expertise in its Board relative to the smaller FHLBanks that serve smaller members with less complicated operations. With that said, it is important that the FHFA acts as the equalizer/normalizer to bridge the knowledge and or experience gap, if any, at the Board, and make an attempt to normalize and rationalize the compensation framework applicable to the FHLBanks (and the other GSEs).

22. To what extent should incentive compensation be tied to achieving diversity and inclusion objectives, such as fulfilling the FHLBanks' diversity and inclusion strategic plans? How much, at what levels, and why?

Linking compensation to achieving diversity and inclusion (D&I) results in FHLBanks window dressing its organizational structure, and hiring and contracting practices to provide an appearance of diversity, and not truly embracing diversity in forms other than the color of a person's skin or a person's gender.

23. How should incentive compensation for the FHLBanks be tied to their mission-related activities (these activities include, but are not limited to, the Affordable Housing Program (AHP), Community Investment Program (CIP), the Community Investment Cash Advance Program (CICA) and Housing Goals)?

I believe it is important to link FHLBank executive compensation to its mission activities. While I am not in a position to elaborate how this could be achieved, I would encourage the FHFA to compare the FHLBank executive pay (base + bonus + retirement) to mission related activities. This exercise could be very revealing.