

March 24, 2023

Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20024

Dear Director Thompson:

Thank you for your service at the Federal Housing Finance Agency. My name is Virginia Varela, and I am a career banker and regulator, and a former director of the Federal Home Loan Bank system.

I applaud the FHFA's action to "reexamine" the structure and role of the Federal Home Loan banks in the U.S. housing market, the first of possible steps of long-sought reform. As you aptly state: "As we near the 100th anniversary" of the Home Loan banks, "now is a good time to reexamine their approach," and FHFA will "examine everything from the banks' membership base, operational efficiency, and effectiveness, to more foundational questions about mission, purpose, and organization."

I am very favorable toward the FHLB system and wholeheartedly support its mission. At the same time, I do not necessarily support the status quo, and believe that advocating for governance changes will improve the system.

FHLB Governance Issues

Certain regulations and guidance may be modified for clarity regarding the roles and responsibilities of sitting directors and Board chairs as good governance practices and for the betterment of the system. This limited request is intended to foster improved rules of governance and to avoid confusion and bias.

Specifically, I refer you and your regulatory staff to review ongoing concerns with the application and intention of section 12 CFR 1261.9 "*Actions affecting director elections.*" The highlighted sections below are specifically confusing and contradictory. Current directors may inadvertently act in a manner that is adverse to the foundational intention of the regulation, creating inequities in the member election process and conflicts amongst FHLB board members.

That section states in pertinent part:

§ 1261.9 Actions affecting director elections.

(a) *Banks.* Each Bank, acting through its board of directors, may conduct an annual assessment of the skills and experience possessed by the members of its board of directors as a whole and may determine whether the capabilities of the board would be enhanced through the addition of individuals with particular skills and experience. If the board of directors determines that the

Bank could benefit by the addition to the board of directors of individuals with particular qualifications, such as auditing and accounting, derivatives, financial management, organizational management, project development, risk management practices, or the law, it may identify those qualifications and so inform the members as part of its announcement of elections pursuant to § 1261.7(a).

(b) *Support for nomination or election.*

(1) A Bank director, officer, attorney, employee, or agent, acting in his or her personal capacity, may support the nomination or election of any individual for a member directorship, provided that no such individual shall purport to represent the views of the Bank or its board of directors in doing so. (emphasis added)

(2) A Bank director, officer, attorney, employee or agent and the board of directors and Advisory Council (including members of the Council) of a Bank may support the candidacy of any individual nominated by the board of directors for election to an independent directorship.

(c) *Prohibition.* Except as provided in paragraphs (a) and (b) of this section, or § 1223.21(b)(7) of this chapter, no director, officer, attorney, employee, or agent of a Bank shall:

(1) Communicate in any manner that a director, officer, attorney, employee, or agent of a Bank, directly or indirectly, supports or opposes the nomination or election of a particular individual for a directorship; or

(2) Take any other action to influence the voting with respect to any particular individual.

(emphasis added)

Please consider: What is the legislative intent of this regulation? What is meant by Section 1261.9 as an effort to "...influence the voting with respect to any particular individual"? At this time, FHLB Directors do take actions to influence the voting with respect to any individual Directors, such as with phone calls, written communications, and endorsements through industry trade groups.

I submit for your consideration that sitting directors, and especially board chairpersons, should be prohibited from endorsements of member candidates for FHLB elections to comply with the spirit and foundational intent of this legislation, to prevent conflicts of interest, and to fully comply with Section 1261.9.

Thank you for your consideration of this matter.

Sincerely,



Virginia A. Varela