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BY FEDERAL EXPRESS AND EMAIL

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Federal Housing Finance Agency  
Fourth Floor  
1700 G Street, N.W.  
Washington, DC 20552  
Attention: Comments/RIN 2590-AA12

**RE: Proposed Rule on Executive Compensation**

Dear Mr. Pollard:

We are writing on behalf of the board of directors of the Federal Home Loan Bank of Atlanta (“Bank”) to comment on the Federal Housing Finance Agency’s (“FHFA”) proposed rule on Executive Compensation (the “Proposal”), which was published on June 5, 2009.<sup>1</sup> The Proposal contains proposed executive compensation regulations that would implement sections 1113 and 1117 of the Housing and Economic Recovery Act of 2008 (“HERA”) with respect to the Federal Home Loan Banks (“FHLBanks”). We welcome this opportunity to comment on the Proposal.

I. Summary of Principal Concerns Regarding the Proposal

A. Implications of a Member-Controlled Cooperative Structure for FHLBank Executive Compensation

While we appreciate the FHFA’s efforts to implement the requirements of HERA sections 1113 and 1117 with respect to the FHLBanks, we believe that the Proposal fails to recognize adequately the unique cooperative structure of the FHLBanks, which contrasts sharply with the publicly-traded structure of Fannie Mae and Freddie Mac (the “Enterprises”), as well as the necessary differences in the level of compensation oversight required of the FHLBanks as opposed to the Enterprises while they remain under the FHFA’s conservatorship. The FHLBanks’ cooperative structure ensures that the member-controlled boards of directors of the FHLBanks set executive compensation at levels that balance the need to attract and retain talented individuals to manage these large, complex and unique financial institutions with the need to minimize operating expenses in order to permit the FHLBanks to return these savings back to their member institutions through lower product rates and increased dividends. We believe that fully considering the protections inherent

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<sup>1</sup> 74 Fed. Reg. 26989 (2009) (to be codified at 12 C.F.R. pt. 1230).

in the cooperative model, as HERA section 1201 requires FHFA to do, would lead to a less prescriptive approach to review of executive officer compensation at the FHLBanks.

The FHLBanks all have similar attributes. As a general matter, the FHLBanks' principal focus is on meeting their housing and community development mission by servicing the financing needs of their member commercial banks, thrifts, credit unions and insurance companies by making advances to their member institutions, maintaining mission-consistent investment portfolios and holding acquired member assets. The assets of the FHLBanks today stand at approximately \$1.2 trillion. The principal financing of the FHLBanks' operations is provided by the issuance of consolidated obligations through the Office of Finance of the FHLBanks, for which the individual FHLBanks are each jointly and severally liable. The FHLBanks currently have approximately \$1.1 trillion of consolidated obligations outstanding. The funding of the FHLBanks is an exceptionally active process. For example, over \$43.6 billion in consolidated obligations were issued during the week of July 6, 2009 alone. The management of such large and complex balance sheets presents a very significant challenge.

In addition to providing a stable low-cost funding source for member institutions involved in housing finance and community development lending, the FHLBanks also serve an important public mission. The FHLBanks operate an Affordable Housing Program ("AHP") under which they provide grants and interest rate subsidies to their member institutions to support affordable housing projects. The FHLBanks also operate a Community Investment Program ("CIP") through which member institutions have access to funding for lending to lower income borrowers. These programs provide significant support for member institutions in their efforts to meet community needs throughout the country.

By law, each FHLBank is operated independently of the other 11 FHLBanks. Each FHLBank is owned by member institutions in its specified geographic area. Each FHLBank is overseen by an independent board of directors elected by the members of the FHLBank. A majority of the board is comprised of "member" directors – i.e., persons who are directors or officers of member institutions. The remainder of the directors are referred to as "independent" directors. These independent directors (who cannot be directors or officers of FHLBank members themselves) are either public interest directors who have experience in representing consumer or community interests in financial services or housing, or directors who have knowledge of specified areas including accounting, financial management or risk management. Each director is independent in the sense that none is permitted by law to be a member of the FHLBank's management. Each board of directors is subject to normal fiduciary obligations to protect the interests of the shareholders of the FHLBank.

The locally based board of directors of each FHLBank oversees the cooperative with a direct appreciation of the unique circumstances facing its individual institution.

This, of course, includes an understanding of strategic goals of the FHLBank and the qualifications of the executives that are most important to the particular institution. It also involves an understanding of the competitive compensation environment that exists in the unique geographic markets in which each of the 12 FHLBanks operates.

Compensation decisions have been and will continue to be a critical aspect of the function of the FHLBanks' boards of directors. The ability to provide compensation arrangements that allow the FHLBanks to attract and retain highly qualified executives, especially during a period of extraordinary financial turmoil, is a tool that is essential to the board's ability to ensure the effective operation of an FHLBank. At the same time, board members are acutely aware of the need to operate an FHLBank in the most efficient manner possible and the need to be effective at fulfilling the FHLBank's missions for its members and the public, since all costs come out of the pockets of the members, and a majority of directors must be either an officer or director of a member. Moreover, from a public perspective, efficient operation of an FHLBank enhances the ability of an FHLBank to support its AHP and CIP initiatives. Since compensation is a major element of FHLBank non-interest expenses, ensuring that executive compensation levels do not exceed the amounts necessary to meet an FHLBank's requirements is a key focus of its board's attention.

B. Transparency of the FHLBanks Executive Compensation Process

In addition to the structural advantages of the cooperative nature of the FHLBanks in promoting strong oversight of the executive compensation process, each FHLBank is registered with the Securities and Exchange Commission ("SEC") under the Exchange Act, which ensures transparency in the process as well. As Exchange Act registrants, each FHLBank is required to provide, among other information, a detailed annual description of its compensation practices. This typically includes a discussion of an FHLBank's compensation philosophy, the roles played by its board and board compensation committee, its use of independent consultants or outside compensation survey information, the peer or comparator institutions that it looks to, and the results of the operation of these processes with respect to certain key executives. This discussion, which is referred to as the Compensation Discussion and Analysis ("CD&A"), is included in each FHLBank's annual Form 10-K. As may be required, additional compensation information also is provided periodically in Forms 8-K filed by the individual FHLBanks. As a result of these requirements, members of the FHLBanks and the public in general are fully informed as to the FHLBanks' executive compensation process as well as to the amounts and elements of compensation.

C. Consideration of the Impact of the FHLBanks' Cooperative Structure Under 12 U.S.C. § 4513(f)

Under 12 U.S.C. § 4513(f), prior to promulgating any regulation that applies to the FHLBanks, the FHFA Director is required to consider the differences between the

FHLBanks and the Enterprises with respect to, among other things, the FHLBanks' cooperative structure. The Proposal requested comments on the application of section 4513(f). As discussed above, because the member-controlled cooperative structure of the FHLBanks (which is not present at the Enterprises) directly and dramatically mitigates against the possibility that an FHLBank's board of directors will compensate the FHLBank's executive officers in excess of compensation comparable with other similar businesses (including other publicly held financial institutions or major financial services companies) involving similar duties and responsibilities, it is particularly inappropriate to impose a regulatory structure on the FHLBanks that effectively shifts the principal responsibility for establishing FHLBank executive compensation from each FHLBank's compensation committee or board of directors to the FHFA. In addition, the FHFA should recognize that the large government investment in the Enterprises and their associated conservatorship may justify a more detailed level of review of their executive compensation decisions, which is not justified and should not be applied to the FHLBanks given their cooperative structure and financial performance.

II. The Proposal Violates the Statutory Prohibition on the FHFA Setting FHLBank Executive Compensation and Unwarrantedly Usurps the Authority and Responsibility of the FHLBanks Boards of Directors

We believe that the Proposal violates the prohibition in 12 U.S.C. § 4518(d) that prohibits the FHFA Director from prescribing or setting "*a specific level or range of compensation.*" Two elements of the Proposal lead to this conclusion.

- First, the preamble to the Proposal contains the following statement:

in order to take into account the Banks' size and structure, FHFA may consider the Federal Reserve Bank and the Farm Credit Banks as examples of appropriate comparators to assess the reasonableness and comparability of executive compensation provided by the Banks.<sup>2</sup> (emphasis added).
- Second, proposed section 1230.2, which, among other things, establishes a definition of "comparable", provides that:

FHFA generally considers comparable to be at or below the median compensation for a given position at similar institutions. In particular circumstances, consideration as described in paragraph (1) of this definition, may indicate the appropriateness of higher or lower benefit amounts to which FHFA would not object. (emphasis added).

The effect of the FHFA's identifying particular comparator institutions, and imposing a presumptive cap on compensation by reference to those particular institutions, is to prescribe or set a specific level or range of compensation. This is precisely what Congress prohibited the FHFA Director from doing in 12 U.S.C. § 4518(d), which provides that the Director may not prescribe or set a specific level or range of compensation.<sup>3</sup>

However, under the FHFA's intended approach, as reflected in the preamble and the text of the Proposal, the FHFA would effectively prescribe and set specific levels and ranges of compensation for the FHLBanks, i.e., at or below the median of a specified comparator group. This heavy-handed result is neither legally permissible under 12 U.S.C. § 4518(d), as enacted by section 1113 of HERA,<sup>4</sup> nor warranted as a matter of appropriate corporate governance or regulation of the FHLBanks.

We do not believe that Congress intended for HERA section 1113 to be applied in a manner that so dramatically strips the boards of directors of the FHLBanks of their authority and proper incentives in making sound executive compensation decisions. Section 1432 of the Federal Home Loan Bank Act authorizes the FHLBanks to hire and set the compensation of FHLBank executives. While HERA imposes certain limitations on compensation (e.g., that it be reasonable), it did not alter the fundamental authority of the board of directors of each FHLBank to set executive compensation.

The Federal Housing Finance Board ("FHFB"), the predecessor to the FHFA with respect to the FHLBanks, made it clear that a key responsibility of an FHLBank board of directors was to "hire and retain competent management."<sup>5</sup> In that regard, the FHFB indicated that an FHLBank's board of directors would be evaluated based on, among other things, its oversight of management's performance and compensation, including "the establishment and period review of compensation which is reasonable in view of an officer's performance and the condition, operating performance and risk profile of the FHLBank."<sup>6</sup>

The FHFA's approach would impose uniform FHFA-mandated compensation outcomes on a widely divergent set of FHLBanks – though they share the same mission – that operate in different circumstances, under different strategies, and in different markets. Instead of

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<sup>3</sup> The same provision initially was enacted as part of the Federal Housing Enterprises Financial Safety and Soundness Act ("1992 Act") and provided that: "In carrying out subsection (a) of this section, the Director may not prescribe or set a specific level or range of compensation." Subsection (a) of 12 U.S.C. § 4518 requires the Director to prohibit the FHLBanks from paying executive compensation that is not reasonable and comparable with compensation for employment in other similar businesses (including other publicly held financial institutions or major financial services companies) involving similar duties and responsibilities.

<sup>4</sup> Nor is the FHFA's intended approach permitted under proposed section 1230.3(d), which repeats the compensation setting prohibition contained in 12 U.S.C. § 4518(d).

<sup>5</sup> FHFB Office of Supervision Examination Manual April 2007 at 6.2.

<sup>6</sup> Id. at 6.29.

**reviewing** the reasonableness of the outcome of an individual FHLBank's compensation committee's or board of directors' compensation process against the statutory standard of reasonableness and comparability with "other similar businesses (including other publicly held financial institutions or major financial services companies) involving similar duties and responsibilities,"<sup>7</sup> the FHFA effectively would be dictating an outcome to the FHLBanks' boards of directors, thereby assigning to the FHFA the role that is properly assigned to the FHLBanks' boards of directors.

HERA section 1113 has assigned to the FHFA an important oversight role in ensuring that executive compensation decisions made by the FHLBanks are reasonable and comparable, but has prohibited the regulator from setting caps, limits or ranges on such executive compensation decisions. We believe that this careful balance reflects a recognition by Congress that each participant in the executive compensation process, both directors and the regulator, benefit from the proper involvement of the other. Directors are best positioned to engage in the highly-individualized process of determining comparator institutions and specific percentile ranges for executive compensation, while the regulator is intended to review these decisions carefully and objectively to ensure that they are reasonable and comparable.

There is no indication in the Proposal that the FHFA considered, in any respect, the extensive independent compensation setting process that each FHLBank's compensation committee or board of directors followed as set forth in great detail in the CD&A section of each FHLBank's Form 10-K for 2006, 2007 and 2008. We believe that a fair evaluation of the description in the Form 10-Ks of the FHLBanks' independent board controlled compensation processes, which typically have made use of outside compensation experts, would confirm that those processes establish a firm foundation for the FHFA's review of an individual FHLBank's determination of reasonable compensation for its executive officers that as intended by 12 U.S.C. § 4518(a).<sup>8</sup>

A central element of the compensation processes described in the FHLBanks' CD&As is the identification, on an individual FHLBank basis, of the appropriate peer or comparator institutions for that particular FHLBank. As discussed below, these comparator institutions do not include Federal Reserve Banks or Farm Credit Banks. The FHFA's decision to specifically refer to a plan to potentially use Federal Reserve Banks or Farm Credit Banks as comparator institutions for the FHLBanks fails to consider adequately (i) the different roles and functions that these institutions play, (ii) any relevant competitive relationship between executive officer employment at Federal Reserve Banks or Farm Credit Banks and the FHLBanks, (iii) any actual comparability of current compensation among these entities, or (iv) the reasons the FHFA did not take into account the actual comparable institutions as set forth in the FHLBank CD&As.

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<sup>7</sup> 12 U.S.C. § 4518(a).

<sup>8</sup> The FHLBanks' general compensation practices are described in detail in Section III below.

The current executive compensation regulations governing the Enterprises<sup>9</sup> promulgated by the Office of Federal Housing Enterprise Oversight in 2001 (“OFHEO Compensation Rule”) under substantively similar statutory requirements do not include a specific presumptive percentage cap relative to comparator institution compensation that would apply to the Enterprises’ executive compensation determinations. Nor does the OFHEO Compensation Rule or its preamble specify particular comparator institutions for the Enterprises. We believe that the approach taken in the OFHEO Compensation Rule in these respects is correct and that the FHFA should use this approach in any final rule applying to the FHLBanks.

We note that the FHFA in the preamble to the Proposal indicated particular institutions that it might consider to be appropriate comparators for the FHLBanks as a whole, but did not offer any indication of which institutions it would consider to be appropriate comparators for Freddie Mac and Fannie Mae. On the surface, it would appear to be easier for the FHFA to make such identification in regard to the Enterprises. All of their principal operations are located in a single metropolitan area, rather than being scattered across 12 cities of dramatically varying levels of size and business and financial activity. Moreover, while the 12 FHLBanks each operate under their own independent member-controlled board of directors, Freddie Mac and Fannie Mae both operate under the direction of the FHFA as their conservator.

It is widely recognized that it is difficult for a government agency to both regulate and operate a financial institution simultaneously. These conflicts are compounded when the government agency also is responsible for regulating other entities that it does not operate under conservatorship -- and where such other entities are in actual or potential competition with businesses the FHFA is operating. In this regard, the FHLBanks currently are competing for funding with the Enterprises. Furthermore, there is the potential for full-scale mortgage securitization competition between the FHLBank and the Enterprises.<sup>10</sup> Under these circumstances it is essential that the FHFA avoid any indication that it is treating entities in which it has a direct operational role as conservator in a manner that seems more favorable than the treatment it is giving to other non-conservatorship entities. The FHFA also should consider whether the substantial government investment and associated conservatorship of the Enterprises may require a different level of regulatory oversight and control of the Enterprises in certain areas, such as executive compensation, than for the FHLBanks, which have not required such substantial government investment or conservatorship.

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<sup>9</sup> 12 C.F.R. pt. 1770.

<sup>10</sup> FHFA Study of Securitization of Acquired Member Assets, 74 Fed. Reg. 8955 (2009).

III. The FHFA Should Not Select Comparator Institutions or Establish Presumptive Compensation Caps Either Formally or Informally in Connection with the Executive Compensation Rule

A. Current FHLBank Compensation Practices

The FHLBanks take executive compensation very seriously. Compensation decisions at the FHLBanks are made by the individual FHLBanks boards of directors, and particularly their compensation committees. Under the terms of the Federal Home Loan Bank Act ("Bank Act"), FHLBank boards may not include any representatives of FHLBank management, but rather are composed of representatives of the FHLBank's member institutions and independent board members. Under the Bank Act, the majority of each of the FHLBank's boards is comprised of representatives of member institutions who would have no incentive to provide excessive compensation to FHLBank executive officers, since such payments would drive down earnings available for distribution to their member institutions. In addition, each FHLBank uses (and discloses the use of) independent, third party compensation consultants and/or independent market data sources in reviewing and establishing compensation.

The CD&A sections from the FHLBanks' Form 10-Ks for each of the last three years demonstrate the executive compensation process undertaken by the FHLBanks. We believe that a review of each of these FHLBanks' compensation practices will enable the FHFA to make the judgment that executive compensation at the FHLBanks is reasonable and comparable as required under HERA.

There is no single formula for setting compensation among the FHLBanks. A review of the FHLBanks' descriptions of their compensation processes demonstrates that the peer groups and benchmarking percentages differ for each FHLBank.<sup>11</sup> This reflects the differences in the competitive employment environment confronting each individual FHLBank and the individualized strategic approaches and analysis that each FHLBank's compensation committee and board of directors undertakes in determining the FHLBank's compensation levels. We believe it would be unwise and contrary to sound public policy for the FHFA to seek to substitute its judgment and a single standard across all FHLBanks for the detailed and individualized processes undertaken by the compensation committees and boards of directors of the FHLBanks in determining their specific comparator institutions and relative compensation for their markets and competitors. The compensation committees and boards of directors, with the outside professional advice and assistance that they have engaged, are in the best position to determine the appropriate comparables and relative pay scales for their FHLBanks. The FHFA has an important role to play in this process by examining and reviewing these decisions to make sure that all

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<sup>11</sup> See Appendix A which sets forth information on compensation peer groups from the CD&As of each FHLBank for the 2008 fiscal year.



executive compensation paid by the FHLBanks is reasonable and comparable, as required by law. The FHFA should not, however, prescribe specific comparator institutions or relative pay across all FHLBanks, which is prohibited by clear statutory language.

B. Similar Institutions and Peer Groups

In selecting peer groups, a task that is performed typically with the assistance of compensation consultants, the FHLBanks focus on competitors from both business and labor market perspectives. Factors considered include (i) operations in similar geographic markets, (ii) company size by assets, revenues, and employee population, and (iii) complexity and similarity of business functions. FHLBanks also consider firms from which the FHLBank historically has hired employees, firms to which the FHLBank has lost employees, and firms that regularly are identified as having qualified candidates by internal and external recruiters. The FHLBanks focus on the realistic employment opportunities for their executives in assessing comparability, since their key compensation objectives include attracting and retaining executives.

The peer groups used by an individual FHLBank vary significantly based upon, among other things, the particular market in which the FHLBank operates. FHLBanks in large financial center markets tend to treat national or financial center-based banking organizations and financial services organizations as peers. On the other hand, the institutions based in smaller markets are more likely to treat regional and smaller-sized banking organizations as peers. In addition, to varying degrees, the FHLBanks look to, among other factors, compensation levels at other FHLBanks in light of the overall operational similarity among this unique group of organizations. The FHLBanks do not identify as peers either the Federal Reserve Banks or the Farm Credit Banks.<sup>12</sup>

The FHFA should not dictate which entities are similar institutions. Rather, it should review the reasonableness of the determinations of comparable institutions made by the FHLBanks. The problem with having the FHFA take on the unwarranted authority to make comparator determinations is illustrated by the suggestion in the Proposal that the Federal Reserve Banks and Farm Credit Banks are appropriate comparators. Section 1113 of HERA directs the FHFA to look to compensation levels at similar businesses, including other publicly traded financial institutions or major financial services companies. Using this approach, we believe the FHFA would, in assessing appropriate comparators, have identified the types of institutions that generally have been cited by FHLBanks in their compensation setting processes – namely, generally publicly traded regional and national bank

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<sup>12</sup> We understand that another FHLBank included a single Federal Reserve Bank among its peers for the year ended December 31, 2008 as a result of a miscommunication between that FHLBank and its compensation consultant.

holding companies and other large publicly traded financial services firms and other FHLBanks.

In contrast, the FHFA cited in the preamble to the proposed rule the Federal Reserve Banks and the Farm Credit Banks as examples of possible comparators. However, the FHFA gives no indication that it analyzed actual comparative compensation among the executive officers of the Federal Reserve Banks, the Farm Credit Banks, and the FHLBanks.<sup>13</sup> Nor does it give any indication as to whether it has evidence that the FHLBanks are in actual or potential competition for current or prospective employees with the Federal Reserve Banks or the Farm Credit Banks, a fact that would appear to be critical to any assertion that these are appropriate comparators for purposes of assessing the reasonableness and comparability of FHLBank executive compensation. We also note that these institutions are neither publicly traded nor registered with the SEC under the Exchange Act.

C. Federal Reserve Banks and Farm Credit Banks

We believe that the Federal Reserve Banks and Farm Credit Banks are not appropriate comparators, and as such the final rule should make it clear that the FHLBanks are expected to make their own individual determinations regarding comparator institutions and that the FHFA will not purport to engage in this function. The FHLBanks do not compete for talent with the Federal Reserve Banks. Historically, employees of the Federal Reserve Banks generally do not move to the FHLBanks or vice versa. The reality of employment competitors as it relates to the FHLBanks and the lack of relevance of the Federal Reserve Banks is described in a paper by McLagan Partners, an executive compensation consulting firm that provides consulting services to a majority of the FHLBanks, which is attached hereto as Appendix B (“McLagan Paper”).

Nor are the Federal Reserve Banks appropriate comparators from a business perspective. The Federal Reserve Banks fundamentally are engaged in very different lines of activity than the FHLBanks. The Federal Reserve Banks are the front-line component of the regulatory, supervisory and enforcement operations of the Board of Governors of the Federal Reserve System. Included among their regulatory responsibilities are the examination and supervision of state member banks and bank holding companies and their affiliates. The Federal Reserve Banks also play a major role in the payments system and currency system. Historically, Federal Reserve Banks have been engaged in lending activities to depository institutions only on a

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<sup>13</sup> In that regard, we are not aware that the Federal Reserve Banks publicly disclose the individual compensation of their executive officers. The Board of Governors of the Federal Reserve System in its annual report discloses information regarding the salary (and not any other forms of compensation) of the President of each Federal Reserve Bank and does not provide any compensation information regarding other executive officers of the Federal Reserve Banks. The five Farm Credit Banks disclose individual level compensation information only for their chief executive officers.

short-term basis. Furthermore, financing of Federal Reserve Bank operations is fundamentally intertwined with the issuance of U.S. currency.

In contrast to the Federal Reserve Banks, the FHLBanks have not had any regulatory responsibilities for almost two decades. Nor are they engaged in the payment and currency system activities of the Federal Reserve Banks. Instead, they focus on providing a full range of short-, medium-, and long-term lending products to member institutions. This activity is far different from the very limited short-term lending activity of the Federal Reserve Banks. Unlike the Federal Reserve Banks, the FHLBanks must fund their operations through market borrowings for which the FHLBanks do not have any statutory or explicit U.S. government guarantee. As a result, FHLBanks, as evidenced by the significant regulatory and examination structure that applies to them, are subject to market and credit risk considerations far different from those facing Federal Reserve Banks.

Likewise, the Farm Credit Banks are not appropriate comparators. The FHLBanks do not compete for talent with the Farm Credit Banks. Historically, employees of the Farm Credit Banks generally do not move to FHLBanks, nor do employees of the FHLBanks move to the Farm Credit Banks. As discussed in the McLagan Paper, the FHLBanks do not view the Farm Credit Banks as comparator institutions. Moreover, the nature of the respective businesses within each FHLBank is very different from that of the Farm Credit Banks, which service the agricultural sector.

D. Benchmarking Percentages

Under 12 U.S.C. § 4518, the FHFA may not mandate a specified benchmarking level for compensation by establishing a presumption that FHLBanks must pay compensation at or below the median compensation. Again, a review of the Form 10-Ks filed by the FHLBanks indicates that, although many of the FHLBanks' boards of directors have chosen to utilize the median level, others look to the 65<sup>th</sup> percentile or the 75<sup>th</sup> percentile. The FHFA ignores the reality that benchmarking is not done in isolation but is related to (i) the entity chosen as comparable, (ii) the position chosen at the "comparable" entity, (iii) individual performance or other factors, and (iv) a review of the total employment proposition. Benchmarking positioning will vary depending on the peer group. For example, many CD&As disclose that the benchmarking percentage is different when looking at (i) other FHLBanks and (ii) other comparators. Second, benchmarked jobs typically are selected based on division, role, and level of responsibilities, considering only "realistic employment opportunities" for each executive. Third, the benchmarking target at some FHLBanks may increase or decrease depending on individual performance or other factors. Finally, benchmarking takes into account all aspects of compensation to ensure that total compensation is appropriate.

A general description of the benchmarking process used at the FHLBanks is described in the McLagan Paper and in the CD&As of the respective FHLBanks filed as part of their Form 10-Ks. As with the selection of comparator institutions,

each FHLBank undertakes this process in a manner that allows it to address its particular allocation of functions and personnel strength and weaknesses. The Proposal sweeps past this highly nuanced individualized process and seeks to apply a ‘one size fits all’ presumptive compensation cap to the FHLBanks. We therefore urge the FHFA to delete the provision in proposed section 1230.2 that establishes a presumptive compensation cap, and instead follow the approach in the OFHEO Compensation Rule, which avoids any specific regulatory statement regarding appropriate comparative compensation levels.<sup>14</sup>

IV. The Proposal Appears to Put an FHLBank Executive Officer At Risk With Respect to all Compensation the Officer May Have Received Or Earned, and is Likely to Make it Difficult For FHLBanks to Attract or Retain Highly Qualified Executive Officers.

Proposed section 1230.3 appears to give the FHFA the authority to direct an FHLBank to permanently withhold payment, transfer or disbursement of any compensation of an FHLBank executive officer based on any factors the FHFA Director considers relevant. Moreover, the proposed rule does not place any limitations on:

- The types of compensation that are subject to being permanently withheld;
- The time period in which the alleged factor justifying the withholding occurred;
- When the compensation to be withheld was earned; and
- The time period in which an action by the FHFA must be commenced and/or concluded.

Furthermore, proposed section 1230.7 refers to the possibility that the FHFA could take corrective or remedial action, including an enforcement action to require an FHLBank executive officer to make restitution or reimbursement of “excessive compensation.” Under this provision, the FHFA appears to suggest that it cannot only prohibit earned compensation from being paid to an FHLBank executive officer, but that it can require an

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<sup>14</sup> We further request that the FHFA delete the reference in clauses (1) and (2) of the definition of “reasonable and comparable” compensation to compensation taken “in whole or in part” and replace it with “taken as a whole.” We believe that if an executive’s compensation package taken as a whole is reasonable and comparable to compensation at similar institutions for similar duties, the FHFA should not be permitted to reject a discrete element of an executive’s compensation as excessive.

We also request that clause (1)(iv) of the definition of reasonable and comparable compensation be revised to clarify that the goals reference also could be those of a division, department, or unit of a regulated entity, rather than just personal goals for the individual or enterprise-wide goals. We further request that clause (1)(iv) be revised to eliminate the reference to “guidance.” While compliance with FHFA regulations and orders, and written agreements with the FHFA is mandatory and subject to enforcement action by the FHFA, “guidelines” issued by the FHFA under its 12 U.S.C. § 4526 authority do not constitute the basis for an FHFA enforcement action. Given the apparent advisory status of “guidance” or “guidelines”, they should not form the basis for an evaluation of executive compensation.

FHLBank executive officer to repay compensation the officer has already received under the claim that such compensation was “excessive compensation.” Proposed section 1230.7 provides no limitations on the FHFA’s purported enforcement or other corrective or remedial authority in this regard.

The combination of proposed sections 1230.3 and 1230.7 and the absence of any apparent limitations on the FHFA’s exercise of this authority with respect to time or scope can only have a detrimental effect on the recruitment and retention of FHLBank executive officers. Such executive officers should not have to be concerned that an exercise of unfettered agency discretion could eliminate the financial results of years of hard work over an amorphous dispute as to what constitutes “excessive compensation.”

We urge the FHFA to consider this negative consequence to the operations of the FHLBanks in developing the final rule and to modify the rule to provide reasonable and appropriate limitations on the FHFA’s exercise of any authority under proposed sections 1230.3 and 1230.7.

V. The FHFA Should Revise the Definition of ‘Executive Officer’ for the FHLBanks to Correspond to SEC Rules and the Proposed Definition for the Enterprises

Proposed section 1230.2 provides a list of persons by title or area of responsibility that are considered executive officers for the FHLBanks. The proposed section also includes those executive officers deemed “named executive officers” under the SEC’s disclosure requirements, as well as additional persons based on role and reporting responsibility. It further provides that the FHFA “Director may add or remove persons, or functions to or from the list set forth... by communication to the [FHL]Banks or a [FHL]Bank at any time.”

We request that the definition of executive officer of an FHLBank be modified to correspond more closely to the SEC’s definition of “executive officer” as defined in Exchange Act Rule 3b-7 [17 CFR 240.3b-7], which covers the president, any vice president in charge of a principal business unit, division or function, any other officer who performs a policy-making function or any other person who performs similar policy-making functions. The SEC definition seems to provide the basis for the definition of executive officer for the Enterprises in section 1230.2 of the Proposal. Because the FHLBanks are SEC registrants, we believe that with certain adjustments a similar definition of executive officer would be appropriate for the FHLBanks. Given the nature of FHLBank boards of directors, the positions of chairman and vice chairman should not be included in the definition of executive officer for the FHLBanks. Further, the definition of executive officer should not be based solely on an officer’s reporting relationship, such as a senior vice president that reports to the president or chief operating officer, but instead, should be based only on whether such officer is in charge of a principal business unit, division or function. Finally, the Director should be required to inform the FHLBanks of those officers covered by the definition of executive officer as he is required to notify the Enterprises under the Proposal.

VI. The Proposal Should be Modified to Clearly Explain How It Will Apply to the FHLBanks

The intended application of the Proposal to the FHLBanks is not clear. We will first discuss the sources of the lack of clarity, and then suggest potential revisions to address these issues.

- Under proposed sections 1230.5(b)(1)-(5) and (7), an FHLBank is required to submit certain compensation related information to the FHFA for its review within one week after a specified event has occurred. The compensation related information could include actions that could result in an immediately effective increase in an executive officer's compensation. However, nothing in the proposed sections suggests that there is any restriction on an FHLBank's ability to immediately implement such increases in executive officer compensation.<sup>15</sup>
- Proposed section 1230.3(c) provides that:

During a review under paragraph (a) of this section, the Director *may* require a regulated entity or the Office of Finance to withhold any payment, transfer or disbursement of compensation to an executive officer, or to place such compensation in an escrow account. (emphasis added).

This provision appears to suggest that if an FHLBank is expected by the FHFA to take any action with regard to an executive officer's compensation, it will be directly and expressly informed of such a directive by the FHFA. However, proposed section 1230.3(c) does not contain any provision for such notification.

- Neither the preamble to the Proposal nor the text of the proposed rule explains how proposed section 1230.3(c) relates to proposed section 1230.3(e). In contrast with proposed section 1230.3(c), which apparently is triggered only when a notice is given by the FHFA to an FHLBank, proposed section 1230.3(e)(1) does not expressly contain such a notice requirement. It provides that:

Subject to paragraph (e)(2) of this section, a regulated entity or the Office of Finance *shall not* transfer, disburse, or pay compensation to any executive officer, or enter into an agreement with such executive officer, without the approval of the Director, for matters being reviewed by the Director under § 1230.3. (emphasis added).

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<sup>15</sup> In an October 1, 2008 memorandum, FHFA Acting Deputy Director Ronald Rosenfeld informed the FHLBanks that pending FHFA action on section 1113 of HERA, they should submit to the FHFA all compensation actions relating to the five most highly compensated officers, including compensation plans of general applicability to those officers at least four weeks in advance of any planned board of directors action with respect to such actions, including studies of comparable compensation.

Since both proposed section 1230.3(c) and proposed section 1230.3(e)(1) refer generically to executive compensation matters under review by the FHFA Director under proposed section 1230.3, we do not understand in what circumstances proposed section 1230.3(c)'s discretionary provision would apply, and in what circumstances proposed section 1230.3(e)(1)'s apparent mandatory provision would apply.

The intended relationship between proposed sections 1230.3(c) and 1230.3(e)(1) and the meaning of proposed section 1230.3(e)(1) is complicated further by proposed section 1230.3(e)(2). Proposed section 1230.3(e)(2) appears to operate in a manner such that the otherwise mandatory provisions of proposed section 1230.3(e)(1) would not operate in a wide range of situations. Presumably any compensation action and/or payment that is not covered by proposed section 1230.3(e)(2) would not be subject to the prohibition and prior approval requirements of proposed section 1230.3(e)(1).

Under proposed section 1230.3(e)(2)(iii), it would appear that proposed section 1230.3(e)(1) would operate such that an FHLBank would be prevented from providing **any compensation** to an executive officer without prior approval of the FHFA Director, if the FHFA Director has provided written notice to the FHLBank that a particular executive officer's compensation is being reviewed by the FHFA Director.

While proposed section 1230.3(e)(2)(iii), providing for written notice, would be a circumstance in which proposed section 1230.3(e)(1) becomes operative for matters being reviewed by the FHFA Director under proposed section 1230.3, the provisions and their operation lack clarity and raise numerous issues, some of which are noted below:

- o How does an FHLBank know that a review is underway in regard to the circumstances described in proposed sections 1230.3(e)(2)(i) and (ii)? (The provisions do not specifically provide for a written notice to the FHLBank.)
- o Is it the FHFA's intent for an FHLBank to assume that a circumstance covered by proposed section 1230.3(e)(2)(i) or (ii) is automatically a matter being reviewed by the FHFA Director under proposed section 1230.3? What is expected of the FHLBank if this were the case?
- o How does the notice referred to in proposed section 1230.3(e)(2)(iii) relate to a notice that might be contemplated by proposed section 1230.3(c) or do such notices potentially have different impacts?
- o Under what circumstances does a review of annual compensation, bonuses, and other incentive pay provided by an FHLBank to its President (as described in proposed section 1230.3(e)(2)(ii)) require the FHLBank to obtain prior approval from the FHFA to transfer, disburse or pay compensation to the President, or to enter into an agreement with the President?

- o Which circumstances require the FHLBank to obtain prior approval from the FHFA to transfer, disburse or pay compensation to an executive officer in connection with the review of a written agreement that provides the executive officer with a term of employment of six months or more or that provides for compensation in connection with termination of an executive officer's employment (as described in proposed section 1230.3(e)(2)(i))?<sup>16</sup>

A procedure that requires an FHLBank to obtain the FHFA Director's approval to continue to pay any compensation to an executive officer presumably was not the intent of Congress.

Given all of the foregoing, we believe that it is essential that the proposed rule be revised to provide a clear and precise process for the operation of the FHFA's review function. In that regard, we recommend that proposed section 1230.3(c) and (e) be combined into a single section to eliminate any potential conflict or ambiguity between their current provisions.

We further recommend that the new section make it clear that, except to the extent that the FHFA has given written notice to an FHLBank that it is conducting a review under proposed section 1230.3 with respect to a particular executive officer, the FHLBank will be under no restrictions on transferring, disbursing or paying compensation to any executive officer, or entering into an agreement with any executive officer.<sup>17</sup>

The revised section also should provide for specific written notice to be given to an FHLBank in the event that the FHFA determines to conduct a review of a particular executive officer's compensation. The notice should specify what forms and amounts of compensation, if any, that the FHLBank is directed not to transfer, disburse or pay to the executive officer pending the outcome of the FHFA's review. In this regard, we believe that the regulation should provide direction that such withheld amounts not include:<sup>18</sup>

- Base salary at levels generally consistent with amounts provided in the prior year;
- Pension benefits under qualified and excess benefit plans and employer and employee contributions with respect to such plans;
- Compensation previously deferred;

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<sup>16</sup> We note that the preamble to the Proposal provides that termination benefits provided under a corporate-wide or top hat policy previously approved by the FHFA Director do not require an additional approval but that point is not addressed in the text of proposed section 1230.3(e)(2)(i)(B).

<sup>17</sup> The FHLBank would remain subject to any applicable information submission requirements with respect to executive officer compensation that might apply under proposed section 1230.5(b).

<sup>18</sup> The definition of compensation in proposed section 1230.2 should be modified to expressly exclude payments to an executive officer under his indemnification and advancement rights to the extent not prohibited by applicable law.



- Health, life, and disability insurance benefits under nondiscriminatory plans or consistent with amounts set aside in prior years;
- Benefits in the form of use of regulated entity equipment and resources;
- Any wages that are protected under state statute; and
- Vacation, sick, bereavement, community service and other leave benefits.

The FHFA should not withhold compensation such that it is treated as deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended, nor act in a manner that exposes an executive officer to unwarranted tax liability. FHFA and Treasury should coordinate so that the payments are considered in the nature of legal settlements excepted from Section 409A.

VII. The Proposal Should be Modified To Address the Due Process Rights of FHLBank Executive Officers

Proposed section 1230.3(b) of the Proposal provides that in determining whether compensation provided by an FHLBank to an executive officer is not reasonable and comparable, the FHFA Director may take into consideration any factors that the FHFA Director considers relevant. Proposed section 1230.3(b) currently specifies only one factor that the FHFA Director might consider relevant to such a determination: “any wrongdoing on the part of the executive officer, such as an fraudulent act or omission, breach of trust or fiduciary duty, violation of law, rule, regulation, order or written agreement, and insider abuse with respect to the regulated entity or the Office of Finance.” We believe that the rule should be modified to provide more specificity as to the types of factors that would be deemed relevant in supporting a determination by the FHFA Director that an executive officer’s compensation is not reasonable and comparable.

Separately, proposed section 1230.3(b) does not offer an executive officer who is the subject of a compensation review based on, among other things, a potential claim of wrongdoing as set forth in that section, any notice of (i) the FHFA’s decision to consider directing the executive officer’s FHLBank to permanently withhold certain of the executive officer’s compensation or (ii) the potential amount and form of the compensation that may be withheld. The proposed rule should be modified to make it clear that certain types of compensation are not subject to being permanently withheld under proposed section 1230.3. These types of compensation should include:

- Pension benefits under qualified and excess benefit plans;
- Health, life and disability insurance benefits under nondiscriminatory plans;
- Any wages that are protected under state statute; and

- Compensation previously deferred.

In addition, proposed section 1230.3(b) does not provide any opportunity for an executive officer to present his or her views or defenses with respect to either the factors that the FHFA Director is considering, including any alleged wrongdoing or the amount and form of any compensation that may be potentially withheld. Proposed section 1230.3(b) also provides no standard as to the degree of proof of a claim of wrongdoing or other conduct that would be required to support a decision by the FHFA Director to order an FHLBank to permanently withhold compensation that had been earned by an executive officer.

As such, Section 1230.3(b) in its current form raises significant due process concerns. An adverse compensation determination by the FHFA Director based on “wrongdoing” or other factors could have a materially adverse financial impact on an executive officer. Moreover, any adverse compensation action against an executive officer, particularly one premised on some type of finding by a government agency of “wrongdoing” could have severe adverse reputational and employment impacts on the executive officer. As a practical matter, such a determination by the FHFA, based in whole or in part on purported wrongdoing by an FHLBank executive officer, could have adverse consequences for the officer’s current position and could make it very difficult for the officer to secure a similar type of employment in the future. This is particularly the case given the possibility that a Form 8-K might be required to be filed in connection with an arrangement or order to withhold any compensation due to the executive officer. Thus, an executive officer has a compelling interest in the outcome of the FHFA Director’s compensation review. The applicable FHLBank likewise has an interest in understanding the circumstances that might result in an adverse compensation determination against one of its executive officers. At the same time, the FHFA also has a strong interest in ensuring that any determination that it makes is well founded and based on a full understanding of the applicable facts and circumstances.

We note here that the importance of protecting employees’ due process rights was recognized by the FHFB with respect to its actions relating to the suspension or removal of directors, officers or employees of an FHLBank. In December 2000, the FHFB proposed a rule regarding agency rules of practice and procedure that would have authorized the agency to suspend or remove such an individual without any prior notice or opportunity to be heard.<sup>19</sup> However, in the final rule published in March 2002, the FHFB withdrew the proposed suspension and removal portion of the rule. The FHFB provided the following explanation for its action:

Numerous comments on the removal provision argue that the agency lacks authority to adopt the rule and challenge whether the rule met the constitutional requirements of due process. The Finance Board has deleted the removal provision from the final rule . . . [B]ecause section 2B(a)(2) of the Act . . . does not require that a hearing on the

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<sup>19</sup> 65 Fed. Reg. 78994 (2000) (to be codified at 12 C.F.R. § 908.7).

record be held to remove or suspend an officer, director, employee or agent of a Bank it raises additional and disparate administrative law issues.<sup>20</sup>

On June 16, 2005, the board of directors of the FHFB issued an order that established a process for the removal or suspension of an FHLBank director or officer (“Order”).<sup>21</sup> That Order included a resolution by the board of directors that referred to “ensur[ing] that the process for removal or suspension of a Bank director or officer is fair, impartial, and meets constitutional due process requirements”. The Order required that at least 20 calendar days before taking any action FHFB staff will communicate in writing to the director or officer (“Respondent”), the Respondent’s counsel, and the relevant FHLBank of the factual and legal circumstances the staff believes may warrant removal or suspension. The Order provides that the Respondent will (i) have the opportunity to respond in writing to the factual and legal bases cited by FHFB staff and (ii) have the opportunity to make an oral presentation at a meeting of the board of directors of the FHFB. The board of directors is required to issue a written decision to the Respondent and the FHLBank. If the Respondent is removed or suspended the board of directors’ decision must describe the factual and legal bases for the findings of cause for removal or suspension.

We believe that the notice, hearing and decision principles that the FHFB ultimately included in the Order properly recognize the importance of providing appropriate due process protections to an FHLBank officer who may be subject to adverse action by a government regulatory agency. We therefore believe that the FHFA should incorporate similar protections into any final rule.

VIII. The Proposed Rule’s Information Submission Requirements Should be Modified in Certain Respects

The one-week timeframe for submissions set forth in proposed section 1230.5(b) is inadequate. As a matter of corporate practice, board minutes and resolutions often are not officially approved until the next board or committee meeting, which typically does not occur until well after one week following a board or committee meeting. The proposed rule should be revised to recognize this factor.

In addition, the requirement that there be no redactions in materials that are submitted should be deleted as there are *bona fide* reasons for redactions. For example, redactions may relate to information that is subject to the attorney-client privilege.

We also note that proposed section 1230.5(b)(4) requires the submission of general benefit plans applicable to executive officers to the FHFA. Does “general benefit plans applicable

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<sup>20</sup> 67 Fed. Reg. 9897, 9901 (2002).

<sup>21</sup> FHFB Order Number 2005-12, (June 16, 2005).

to executive officers” include all benefits applicable to all employees (including executive officers) or only those benefit plans meant to apply primarily to executive officers?

Finally, proposed section 1230.5(b)(5) requires submission to the FHFA of any study conducted by or on behalf of an FHLBank with respect to compensation of executive officers, when delivered. This could require an FHLBank to submit such studies to the FHFA before the board of directors has had an opportunity to review or approve the study. We believe that the board of directors should have the opportunity to review and comment on such a study prior to submission to the FHFA.

#### IX. Existing Executive Compensation Arrangements Should be Grandfathered

We believe that compensation arrangements with FHLBank executive officers that are in effect prior to the effective date of the final rule should not be subject to action by the FHFA under 12 U.S.C. § 4518 or under the final rule. In this regard, we note that Congress, in amending the charter acts of the Enterprises to include certain restrictions on the payment of termination benefits by the Enterprises to their executive officers, provided that such restrictions should be applied prospectively only to agreements entered into after the date of the enactment of the 1992 Act.<sup>22</sup>

Further support for this approach is provided by the FHFA’s recent proposed rule on golden parachute and indemnification payments (“Golden Parachute Proposal”).<sup>23</sup> The preamble to the Golden Parachute Proposal excludes pre-existing arrangements from coverage under the proposed rule:

In proposing the amendment, FHFA recognizes that prior to the enactment of HERA, the regulated entities or the Office of Finance may have entered into agreements that provide for golden parachute payments beyond that which is proposed to be permissible under section 1318(e) of the Safety and Soundness Act (12 U.S.C. 4518(e)) and the proposed amendment. FHFA intends that the proposed amendment would apply to agreements entered into by a regulated entity or the Office of Finance with an entity-affiliated party on or after the date the regulation is effective.<sup>24</sup>

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<sup>22</sup> 12 U.S.C. 1723a(d)(3)(B) and 12 U.S.C. 1452(h)(2). This principle is included in the OFHEO Compensation Rule 12 C.F.R. 1770.1(b)(2) (“Agreements or contracts that provide for termination payments to executives that were entered into before October 28, 1992 are not retroactively subject to approval or disapproval by the Director. However, a renegotiation, amendment or change to such an agreement or contract entered into on or before October 28, 1992 shall be considered as entering into an agreement or contract that is subject to approval by the Director.”).

<sup>23</sup> 74 Fed. Reg. 30975 (2009) (to be codified at 12 U.S.C. Part 1231).

<sup>24</sup> Id. at 30976.

We believe that the same principle that the FHFA has indicated that it intends to follow in the Golden Parachute Proposal should be applied in the final rule, so that the rule does not apply to compensation arrangements with FHLBank executive officers entered into prior to the date that the final rule becomes effective. Such an approach would help avoid possible legal issues or challenges that might arise if the regulation were applied to pre-existing compensation arrangements.

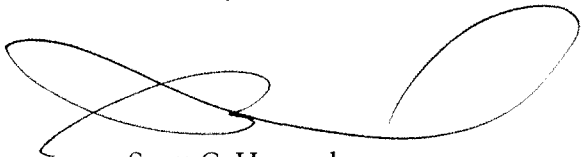
X. The Proposed Section Regarding the FHFA Director's Temporary Executive Compensation Power Should be Revised to Reflect the Limitations on the Applicability of that Power

Section 1117 of HERA authorizes the Secretary of the Treasury (the "Secretary") to purchase FHLBank obligations under certain circumstances until December 31, 2009. Section 1117 also contains a provision stating that the FHFA Director shall have the power to approve, disapprove, or modify the executive compensation of the FHLBank as defined under Regulation S-K, 17 CFR 229. We believe that the FHFA Director's authority under Section 1117 is triggered only with respect to a particular FHLBank if the Secretary makes a covered purchase of such FHLBank's obligation under Section 1117. Proposed section 1230.6 should be modified to reflect this limitation on the FHFA Director's authority in this respect. Moreover, we note that legal issues including potential takings or other legal claims could arise depending upon the method in which any such authority was exercised.

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We appreciate your consideration of these comments.

Sincerely,



Scott C. Harvard  
Chairman of the Board  
Federal Home Loan Bank of Atlanta



James Thomas Johnson  
Chairman of the Governance and Compensation  
Committee  
Federal Home Loan Bank of Atlanta

**Appendix A: Disclosure of Peer Groups from 2008 10-Ks for the FHLBanks**

FHLBank	Peer Companies
<p><b>Atlanta</b> Pages 149-150</p>	<p>In determining the base salary for Mr. Dorfman, the board considered data developed by Towers Perrin noting total cash compensation provided at FHLBanks of similar size and complexity, at commercial financial institutions with assets between \$10 billion and \$50 billion, and at commercial financial institutions with assets between \$100 billion and \$400 billion. These commercial financial institutions were:</p> <p><b>Financial Institutions with Assets of \$10B to \$50B:</b>            Associated Banc-Corp            Commerce Bancorp            Compass Bancshares, Inc.            Cullen/Frost Bankers, Inc.            Harris Bank            Huntington Bancshares Inc.            IndyMac Bank            People’s Bank            TD Banknorth            Webster Bank</p> <p><b>Financial Institutions with Assets of \$100B to \$400B:</b>            BB&amp;T Corporation            Countrywide Financial Corporation            Fifth Third Bancorp            HSBC North America Holdings Inc.            PNC Financial Services Group, Inc.            Regions Financial Corporation            SunTrust Banks, Inc.            U.S. Bancorp</p> <p>Mr. Dorfman’s salary was set at a competitive level among the presidents of the FHLBanks but below the average base salary for the presidents of the commercial financial institutions listed above.</p> <p>In determining the 2008 base salaries for Messrs. McMullan, Malmberg, and Ms. Spencer, and the 2008 base fee for Mr. Goldstein, the board considered comparative compensation data provided by Hewitt Associates that reflected market pay rates for similar positions at commercial financial institutions with assets greater than \$25 billion. The board reviewed a single estimated market value for each position that included data from the median and 75th percentiles for base pay, bonus pay, and total cash compensation. The market data compiled by Hewitt Associates reflected compensation survey data published by Watson Wyatt, Hewitt Associates, and Mercer Human Resources Consulting.</p>

FHLBank	Peer Companies
<p><b>Boston</b> Pages 159-161</p>	<p>The labor market in which the Bank competes for senior managers, including the Named Executive Officers, is far broader in scope than only the FHLBank System or other GSEs, such as Fannie Mae and Freddie Mac. In fact, the local financial services labor market is dominated by high-paying asset-management firms as many of the sizeable northeastern U.S. banks, a traditional source of senior management, have been acquired by larger financial institutions. The Bank recognizes that it must be positioned to offer a nationally competitive compensation package to Named Executive Officers to ensure that it can acquire and retain talent with the specialized skills needed to maintain profitable growth while managing the complex risks of a wholesale lending and mortgage-purchase operation. When setting compensation levels, the Bank is also cognizant of the high cost of living in the Boston area.</p> <p>The Total Rewards Philosophy defines two primary competitive peer groups for the Named Executive Officers, including commercial/regional banks and the FHLBank System. Both peer groups are considered in setting the total rewards package, with the FHLBanks as the primary peer group for determining the proportionate mix of pay and benefits. While all of the FHLBanks share the same mission, they may differ in their relative mix of services and are scattered among urban and smaller-city locations, which impacts labor-market competition and compensation by individual FHLBank. However, due to the FHLBank System's unique cooperative structure, all of the FHLBanks in the FHLBank System must rely on a total rewards package for Named Executive Officers of base salary, cash incentives, and benefits only, since none can offer equity-based compensation opportunities such as those offered at their non-FHLBank competitors.</p> <p>The second primary peer group, commercial/regional banks, serves as a relevant comparator group for competitive positioning of the total rewards package for those Bank positions requiring financial services experience, including the Named Executive Officers. The commercial/regional bank peer group focuses on large and mid-sized commercial/regional banks but excludes large global investment banks and securities firms. The Bank and commercial banks engage in wholesale lending and share similarities in several functional areas, particularly middle-office and support areas, but with a marked difference between the two in capital-market activities and market risk. The commercial bank peer group consists mostly of banks with multiple product lines/offerings and significant assets. Regional banks are most similar to the Bank in terms of product offerings, complexity, and assets and most closely align with the size and scope of responsibility at the Bank.</p> <p>...</p> <p>In 2007, the Bank participated in the 2007 Federal Home Loan Bank Survey, a proprietary survey conducted by McLagan, on behalf of the FHLBanks. The Bank also worked with McLagan to match several of the positions held by the Named Executive Officers to comparable positions in the commercial/regional banks peer group of McLagan's proprietary 2007 Finance and Business Services Survey. Named Executive Officer positions were matched to those survey positions which represented realistic job opportunities based on scope, similarity of positions, experience, complexity, and responsibilities. Realistic job opportunities included positions that the Named Executive Officers would be qualified for at the external firm as well as positions at the firm that the Bank would consider when recruiting for experienced executives. This approach generally resulted in the Bank comparing the Named Executive Officers to divisional rather than overall heads of businesses and functions.</p> <p>In addition to the McLagan survey data, the Committee reviewed market data from the annual FHLBank System survey of key positions in determining and recommending 2008 base salaries for all of the Named Executive Officers, including Mr. Jessee. The Committee also considered Mr. Jessee's recommendation for his direct reports, individual performance, tenure, experience, and</p>

FHLBank	Peer Companies		
	<p>complexity of the Named Executive Officer's position in setting 2008 base salaries. In 2007, Mr. Jessee recommended, and several of the other Named Executive Officers received, significant adjustments to base salary as a result of the Bank's re-organization and promotions that increased each such Named Executive Officer's responsibility and authority. Mr. Jessee only recommended merit increases for the other Named Executive Officers for 2008. Adjustments to base salary for all Named Executive Officers were effective January 1, 2008.</p>		
	<p>The following is a representative, consolidated list of survey participants that were included by McLagan in the commercial/regional banks peer group.</p>		
	<p>Aareal Capital Corporation  Australia &amp; New Zealand Banking Group  Banco Bilbao Vizcaya Argentaria  Bank Hapoalim  Bank of America  Bank of China  Bank of Ireland Corporate Banking    Bank of Scotland  Bank of the West  Bank of Tokyo - Mitsubishi UFJ  Bayerische Landesbank  BMO Financial Group  BNP Paribas  BOK Financial Corporation  Branch Banking &amp; Trust Co.  Brown Brothers Harriman &amp; Co.  Calyon  Capital One  CIBC World Markets  Citigroup  Citizens Bank  City National Bank  Cohen &amp; Steers  Colonial Savings, FA  Comerica    Commerzbank  Compass Bancshares, Inc.  Countrywide Financial Corp.</p>	<p>Credit Industriel et Commercial  Dexia  DVB Bank  DZ Bank  Eurohypo AG  Fannie Mae  Fifth Third Bank    First Tennessee Bank/ First Horizon  Fortis Financial Services LLC  Freddie Mac  GE Commercial Finance  Glitnir  GMAC  HSBC Bank  HSBC Global Banking and Markets  Hypo Vereinsbank  ING  JP Morgan Chase  KBC Bank  KeyCorp  Landesbank Baden-Wuerttemberg  Lloyds TSB  M&amp;T Bank Corporation  Marshall &amp; Ilsley Corporation  Mitsubishi UFJ Trust &amp; Banking Corporation (USA)  Mizuho Corporate Bank, Ltd.  National Australia Bank  Natixis</p>	<p>Nord/LB  Nordea Bank  PNC Bank  Rabobank Nederland  Regions Financial Corporation  Royal Bank of Canada  Royal Bank of Scotland (Including ABN Amro)  Skandinaviska Enskilda Banken  Societe Generale  Sovereign Bank  Standard Bank  Standard Chartered Bank  State Street Bank &amp; Trust Company  Sumitomo Mitsui Banking Corporation  SunTrust Banks  TD Securities  The Bank Of New York Mellon  The Bank of Nova Scotia  The CIT Group  The Northern Trust Corporation  The Sumitomo Trust &amp; Banking Co., Ltd.  U.S. Bancorp  Union Bank of California  Wachovia Corporation  Washington Mutual    Wells Fargo Bank  Westpac Banking Corporation</p>



FHLBank	Peer Companies
<p><b>Chicago</b> Page 104-105</p>	<p>In 2007, we engaged McLagan Partners, a compensation consulting firm, to conduct a competitive compensation review of base pay, and short-term and long-term incentive opportunities for our executive officers, senior officers and other key employees. The peer group for this study varied for different positions as the consulting firm reviewed each position and attempted to benchmark it against a group of financial institutions where executives would possess similar levels of knowledge and experience. The peer group included commercial banks because of the similarity in functions involving wholesale lending and managing large loan portfolios. For certain positions, the peer group also included mortgage banking institutions and other FHLBs because we compete with these institutions for talent in those positions.</p> <p>We also participated in the annual Federal Home Loan Bank System Key Position Compensation Survey. This survey, conducted annually by Reimer Consulting, contains executive and non-executive compensation information for various positions across the 12 FHLBs.</p> <p>...</p> <p>In the third quarter of 2007, in connection with merger discussions underway with the Federal Home Loan Bank of Dallas, we engaged McLagan Partners to survey market practices and evaluate a change-in-control methodology for senior management, including our NEOs, against those practices. The peer group for this study consisted of the following large, diversified financial institutions: Fifth Third Bancorp, KeyCorp, M&amp;T Bank Corporation, National City Corporation, PNC Financial Services, Sovereign Bancorp, US Bancorp, Wachovia Corporation and Wells Fargo &amp; Co.</p>
<p><b>Cincinnati</b> Page 163-164</p>	<p>Competition and Compensation Benchmarking</p> <p>The compensation program is designed to provide market competitive compensation, comparable to the opportunity found at those financial institutions from which we expect to recruit executive officers. We compete with other Federal Home Loan Banks and, to a lesser extent, other federal housing GSEs for executive talent. Primarily, however, we compete for executive talent with private sector financial institutions, including both commercial and mortgage banks. As such, our executive officers are required to possess equivalent levels of knowledge and experience in comparison to peer positions at similarly sized commercial and mortgage banks.</p> <p><u>Mortgage Banks:</u> Although mortgage banks do not engage in wholesale lending as their primary source of business and are not comparable in total assets to the FHLBank, many of the skills and experiences acquired through employment with a mortgage bank are transferable to the FHLBank. When benchmarking executive positions, the Committee generally uses compensation data from mortgage banks with product offerings, complexity and assets that align relatively closely with the size and scope of responsibility required by the FHLBank.</p> <p><u>Commercial Banks:</u> Although primarily different in the capital markets function, we compete for talent with commercial banks since both we and they engage in wholesale/institutional lending and have similarities in middle office and support areas. As with mortgage banks, when benchmarking executive positions, the Committee generally uses compensation data from commercial banks with relatively similar product offerings, complexity and assets.</p> <p><u>Other FHLBs:</u> While all FHLBs share the same public policy mission, they can differ considerably in their relative mix of services, investment risk/credit quality and geographical location, which directly impacts labor market competition. When benchmarking executive positions, the Committee considers compensation levels and practices within the FHLBank System.</p> <p>When determining compensation of our executive officers, the Committee uses comparative compensation information of our peer group as a reference point for determining the amount of total compensation, individual components of compensation, and relative proportion of each component of compensation. Our peer group includes compensation data from the other FHLBs and other federal housing GSEs, as well as a custom benchmarking analysis group. In 2004,</p>

FHLBank	Peer Companies																																										
	<p>the Committee engaged the services of McLagan Partners, a nationally recognized compensation consulting firm specializing in the financial services industry, to assist in determining the appropriate mix of compensation provided to executive officers and to evaluate the effectiveness of our total compensation program. During each of the past four years, including 2008, McLagan Partners has provided updated peer group compensation data to the Committee and the President for FHLBank officers.</p> <p>In recognition of the differences in organization structure as well as scope of job responsibilities of our executives, McLagan Partners custom benchmarking analysis aligns FHLBank positions to comparable positions at the divisional or subsidiary level of the peer group employers. Additionally while a number of multinational financial institutions are included in the analysis, McLagan Partners selectively utilizes compensation data for comparable positions of the firms' U.S. based subsidiaries. A consolidated list of the participants that were included by McLagan Partners in the FHLBank's 2007 custom benchmarking analysis for purposes of 2008 compensation follows:</p> <table data-bbox="323 516 1759 941"> <tbody> <tr> <td>AEGON USA Realty Advisors, Inc.</td> <td>CIBC World Markets</td> <td>KeyCorp</td> </tr> <tr> <td>AIB Capital Markets</td> <td>Citigroup</td> <td>Lloyds TSB</td> </tr> <tr> <td>Australia &amp; New Zealand Banking Group</td> <td>Citizens Bank</td> <td>Prudential Financial</td> </tr> <tr> <td>Banco Bilbao Vizcaya Argentaria</td> <td>Commerzbank</td> <td>Rabobank Nederland</td> </tr> <tr> <td>Bank Hapoalim</td> <td>Fifth Third Bank</td> <td>Royal Bank of Canada</td> </tr> <tr> <td>Bank of America</td> <td>Fortis Financial Services LLC</td> <td>Societe Generale</td> </tr> <tr> <td>Bank of Tokyo – Mitsubishi UFJ</td> <td>GE Commercial Finance</td> <td>Standard Chartered Bank</td> </tr> <tr> <td>BMO Financial Group</td> <td>GMAC</td> <td>SunTrust Banks</td> </tr> <tr> <td>BNP Paribas</td> <td>HSBC Bank</td> <td>The CIT Group</td> </tr> <tr> <td>Branch Banking &amp; Trust Co.</td> <td>HSBC Global Banking and</td> <td>The Northern Trust Corporation</td> </tr> <tr> <td>Brown Brothers Harriman &amp; Co.</td> <td>Markets</td> <td>Wachovia Corporation</td> </tr> <tr> <td>CALYON</td> <td>ING</td> <td>Washington Mutual</td> </tr> <tr> <td>Cargill</td> <td>JP Morgan Chase</td> <td>Wells Fargo Bank</td> </tr> <tr> <td></td> <td>KBC Bank</td> <td></td> </tr> </tbody> </table> <p>For purposes of the 2009 compensation, the analysis included the same participants as listed above, with the addition of Credit Industriel et Commercial, Hypo Vereinsbank, Nordea Bank, and Skandinaviska Enskilda Banken.</p>	AEGON USA Realty Advisors, Inc.	CIBC World Markets	KeyCorp	AIB Capital Markets	Citigroup	Lloyds TSB	Australia & New Zealand Banking Group	Citizens Bank	Prudential Financial	Banco Bilbao Vizcaya Argentaria	Commerzbank	Rabobank Nederland	Bank Hapoalim	Fifth Third Bank	Royal Bank of Canada	Bank of America	Fortis Financial Services LLC	Societe Generale	Bank of Tokyo – Mitsubishi UFJ	GE Commercial Finance	Standard Chartered Bank	BMO Financial Group	GMAC	SunTrust Banks	BNP Paribas	HSBC Bank	The CIT Group	Branch Banking & Trust Co.	HSBC Global Banking and	The Northern Trust Corporation	Brown Brothers Harriman & Co.	Markets	Wachovia Corporation	CALYON	ING	Washington Mutual	Cargill	JP Morgan Chase	Wells Fargo Bank		KBC Bank	
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	KBC Bank																																										

<p><b>Dallas</b> Page 125</p>	<p>Except as described below, for 2008, 2007 and 2006, the Committee and Board of Directors defined the competitive market for our executives as the other 11 Federal Home Loan Banks (“FHLBanks”) and non-depository financial services institutions with approximately \$20 billion in assets. Aside from the other FHLBanks, we believe that non-depository financial services institutions with approximately \$20 billion in assets present a breadth and level of complexity of operations that are generally comparable to our own. While total direct compensation for some of these institutions includes equity-based and/or long-term incentive compensation, we purposely limit our comparative analysis for total direct compensation to base salary and short-term incentive pay as we do not offer either equity-based or long-term incentives. For 2008, the Board of Directors (acting upon a recommendation from the Committee) revised the definition of the competitive market for our President and Chief Executive Officer. The Committee and Board of Directors believe that the most relevant competitive market for Mr. Smith is the other 11 FHLBanks and as a result, for 2008, only market data for the other FHLBanks was used in the competitive pay analysis for Mr. Smith. Prior to 2008, the competitive market for Mr. Smith was defined in the same manner as it is for our other executive officers. The Committee and Board of Directors believe that the other 11 FHLBanks represent the most relevant competitive market for Mr. Smith based on the unique nature of our business operations and our desire to retain Mr. Smith’s services given his tenure with us and his extensive knowledge of the FHLBank System.</p>
<p><b>Des Moines</b> Page 149</p>	<p>We strive to provide executive compensation targeting ... of the market for total compensation of executives in the financial services industry, including commercial and regional banks, mortgage banks, and the FHLBank System. However, as appropriate and at the discretion of the Compensation Committee and/or the President, the Bank may pay above or below the 50th percentile based on the experience and performance of the Executives.</p> <p>In early 2008 the Compensation Committee obtained compensation data representing a composite of resources from McLagan Partners for executive positions determined to be comparable to and a realistic employment opportunity for the Executives. McLagan Partners also conducted a custom survey of executive compensation among the FHLBanks. This survey data was incorporated into their analysis and provided another source of competitive data. The benchmark data used was based on the individual’s management role, decision making capacity, and scope of the departments for which the executive would be responsible. For example, our Executives are required to have the depth of knowledge and experience that is required of comparable financial service industry organizations, however our focus is narrower due to the smaller size of the Bank than many of the organizations in this group.</p>

**Indianapolis**

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The salary and benefit benchmarks we use to establish reasonable and competitive compensation for our employees are the competitor groups established by Aon Consulting and its affiliate, McLagan Partners, or other consultants authorized by the Board. The primary competitor groups' benchmarks are a set of regional/commercial banks and other companies ("Primary Peer Group"). The other eleven FHLBs are the secondary peer group ("Secondary Peer Group"), including a sub-set of "non-metro" FHLBs which excludes Atlanta, Chicago, New York and San Francisco. The Primary and Secondary Peer Groups are collectively referred to as ("Peer Groups"). For certain positions, with input from the salary and benefits consultants, we use job specific benchmarks for similar jobs which may or may not reflect actual job responsibilities, but are determined by the consultant to be market comparable and represent realistic employment opportunities. For example, the President-CEO of our Bank would not necessarily be compared to the President-CEO of a Primary Peer Group company, rather may be compared to the President-CEO of a division of that Primary Peer Group. The institutions currently in the Primary Peer Group are:

Abbey Financial Markets	CIBC World Markets	HSBC Investment Banking Technology	Prudential Financial
ABN AMRO	Citigroup	Hypo Vereinsbank	Rabobank Nederland
Accenture	Citigroup Alternative Investments	ICAP	Raymond, James & Associates
AIG	Citigroup Corporate Center	ING	Robert W. Baird & Co. Inc.
ALLCO Finance Group	Citigroup Global Wealth Management	ITG	Royal Bank of Canada
AllianceBernstein L.P.	Citigroup Investment Research	Jackson National Life	Royal Bank of Scotland/Greenwich Capital
Allianz Global Investors	Commerzbank	Janney Montgomery Scott Inc.	Russell Investment Group
Allianz Life Insurance of North America	Compass Bancshares, Inc.	JP Morgan Fleming Asset Management	Sagent Advisors Inc.
Allied Irish Bank	Constellation Energy Group	Keefe, Bruyette & Woods, Inc.	Securities America
American Express	Cushman & Wakefield, Inc.	KeyCorp	Signal Hill Capital Group
Ameriprise Financial, Inc.			
Archelon	Depfa Bank plc	KPMG	Silicon Valley Bank
Australia & New Zealand Banking Group	Depository Trust & Clearing Corporation	Landesbank Baden-Wurttemberg	Societe Generale
AXA Investment Managers	Deutsche Asset Management	Lava Trading Inc.	Sovereign Bank
Banco Santander	Dresdner Kleinwort		Standard Chartered Bank
Bank of America	Dresner Partners	Legg Mason, Inc.	State Street Bank & Trust Company
Bank of New York	DVB Bank	Lloyds TSB	Sumitomo Mitsui

	Bank of Tokyo — Mitsubishi UFJ	DZ Bank	M&T Bank Corporation	Banking Corporation SunTrust Banks
	Barclays Capital Group	EquiLend	Man Group plc	Synovus
	Barclays Global Investors	Federal Reserve Bank of Boston	Mellon Financial Corporation	TD Securities
	Bayerische Landesbank	Fidelity Investments	Metropolitan Life Insurance Company	The Bank of Nova Scotia
	B.C. Ziegler & Co	Fifth Third Bank	Mizuho Corporate Bank, Ltd.	The CIT Group
	Black River Asset Management	Fimat USA, Inc.	Montgomery & Co, LLC	The Sumitomo Trust & Banking Co., Ltd.
	BMO Financial Group	Financial Industry Regulatory Authority	Morgan Keegan & Company, Inc.	TIAA-CREF
	BNP Paribas	FitchRatings Ltd	Morgan Stanley Asset Management	UBS Global Asset Management
	BOK Financial Corporation	Fortis Financial Services LLC	National City Corporation	Union Bank of California
	Boston Stock Exchange Branch Banking & Trust Co.	Freddie Mac GE Commercial Finance	NATIXIS Needham & Co.	Wachovia Corporation Washington Mutual
	Broadpoint Securities Group	GMAC	New York Stock Exchange, Inc.	Wells Fargo Bank
	Brown Brothers Harriman & Co.	Harris Williams	NewStar Financial Inc	WestLB
	Cain Brothers & Company, LLC	Harvard Management Company, Inc.	Nollenberger Capital	Westpac Banking Corporation
	Calyon Financial Inc.	Hess Corporation	Northern Trust Corporation, The	William Blair & Company
	Capital One	HSBC Bank	Northwestern Mutual Life Insurance Company	
	Cargill	HSBC Corporate, Investment Banking & Markets	Piper Jaffray	
	Chicago Mercantile Exchange	HSBC Investment Banking Technology	PNC Bank  PricewaterhouseCoopers	

**New York**

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A major undertaking for Aon during the review process was to identify the Bank's peer group for "benchmarking" purposes (that is, for purposes of comparing levels of benefits and compensation). Aon weighed a number of factors in order to arrive at the selection of a peer group. Among the factors considered were firms that were either business competitors or labor market competitors (focusing attention on firms either headquartered or having major offices in the same or similar geographic markets), and firms similar in size (assets, revenues and employee population) to the Bank. Through Aon's experience working with other Home Loan Banks and through direct interviews with the Bank's senior management, Aon identified the current and future skill sets needed to meet the Bank's business objectives and also noted that the Bank tended to hire employees from and lose employees to certain institutions.

While "Wall Street" firms were considered, Aon recommended they not be used as benchmark peers because of an inconsistency between business compensation models. These firms tend to base their compensation levels to a significant extent on activities that carry a high degree of risk and commensurate level of return. In contrast, the Bank, as a Federally-regulated provider of liquidity to financial institutions, operates using a low risk/return business model.

Based on these considerations, Aon recommended that the Bank's peer group should be regional and commercial banks.

In addition, Aon proposed that Bank officer positions be matched one position level down versus commercial/regional banks. Aon's rationale was that officer positions at commercial/regional banks are one level more significant than at the Bank because they manage multiple business lines in multiple locations. In contrast, the Bank only has two locations and one main business segment. Therefore, the Bank generally recruits senior level positions from a "divisional" level at commercial/regional banks as opposed to the higher "corporate" level of such organizations. The C&HR Committee and the Board agreed with these recommendations.

A representative list of the peer group that was used in the Aon study is set forth in the table below. For the firms listed below that had multiple lines of business, the Bank benchmarked total compensation against the wholesale banking functions at those companies.

Australia & New Zealand Banking Group	Cargill	GMAC	Royal Bank of Canada
ABN AMRO	CIBC World Markets	HSBC Bank	Royal Bank of Scotland/Greenwich
Allied Irish Bank	Citigroup	HSBC Corporate, Investment Banking & Markets	Capital
The Bank of Nova Scotia	Citizens Bank	Hypo Vereinsbank	Societe Generale
Banco Santander	Commerzbank	ING Bank	Standard Chartered Bank
Bank of New York/Mellon	Commonwealth Bank of Australia	JP Morgan Chase	Sumitomo Mitsui Banking Corporation
Bank of Tokyo - Mitsubishi UFJ	DVB Bank	KeyCorp	SunTrust Banks
Bank of America	DZ Bank	Lloyds TSB	TD Securities
BMO Financial Group	Deutsche Bank	M&T Bank Corporation	Wachovia Corporation
BNP Paribas	Dresdner Kleinwort	Mizuho Corporate Bank, Ltd.	Wells Fargo Bank
Brown Brothers	Fortis Financial Services LLC	National Australia Bank	WestLB
	GE Commercial Finance	Rabobank Nederland	Westpac Banking Corporation

	<p>Harriman The CIT Group <i>Note: Benchmarking data from international banks only contained results from their New York operations.</i></p>					
<p><b>Pittsburgh</b> Page 196-197</p>	<p>The Bank’s compensation plan for the CEO and other Executives establishes each component of compensation to be competitive within the Federal Home Loan Bank System (FHLBank System). The salary range data for comparable positions at the other FHLBanks serves as the primary benchmark for the CEO and the other Executives... Although the Bank had assets of \$91.0 billion at December 31, 2008, for compensation purposes the Board has considered institutions with assets less than \$25 billion to be comparable to the Bank in terms of the relative complexity of the business.</p>					
<p><b>San Francisco</b> Page 173-174</p>	<p>Comparing our compensation practices to a group of other financial services and banking firms that are similar in total assets presents some challenges because of the special nature of our business and our cooperative ownership structure. We believe that the executive roles of our named executive officers are somewhat comparable to similar-sized financial services and banking firms, although the Bank may have a narrower focus.</p> <p>Our named executive officers are required to have the depth of knowledge and experience that is required by comparable financial services and banking firms, but unlike some of these comparable companies with multiple lines of business, our lines of business are limited. Our focus is more like that of a specific subsidiary, division, or business unit of comparable companies with multiple lines of business.</p> <p>For purposes of developing comparative compensation information, the companies with comparable positions were financial services and banking firms with similar asset size, business sophistication, and complexity. As stated above, in supporting compensation decisions, the Committee uses and considers compensation information about the comparable positions at these companies.</p>					
<p><b>Seattle</b> Page 196</p>	<p>We draw employee talent from broad industry groups and a wide geographic area. In reviewing compensation levels for each executive officer position, we consider key position compensation data obtained annually from the other 11 FHLBanks, as well as information provided by our compensation consultant on jobs that are similar in scope, experience, complexity, and responsibilities to the particular position. The data provided by McLagan Partners, Inc. consists of compensation composites for executive positions from a large number of companies within general industry categories, such as U.S. major market corporate banking and risk management. A representative sample of companies included in the composite compensation data is shown below.</p> <table border="1" data-bbox="331 1149 1612 1481"> <tr> <td data-bbox="331 1149 758 1481"> <p>Australia &amp; New Zealand Banking Group Bank Hapoalim Bank of America Bank of New York Mellon Bank of Tokyo—Mitsubishi UFJ BMO Financial Group BNP Paribus Branch Banking &amp; Trust Co. Brown Borthers Harriman &amp; Co. Calyon</p> </td> <td data-bbox="758 1149 1184 1481"> <p>Compass Bank Dresdner Kleinwort DVB Bank DZ Bank Fortis Financial Services LLC GE Commercial Finance HSBC Bank HSBC Corporate Global Banking &amp; Markets Hypo Vereinsbank ING</p> </td> <td data-bbox="1184 1149 1612 1481"> <p>PNC Financial Services Rabobank Nederland Royal Bank of Canada Royal Bank of Scotland (Citizens) Skandinaviska Enskilda Banken Societe Generale Standard Bank Standard Chartered Bank Sunitomo Mitsui Banking Corporation SunTrust Banks Inc. TD Securities</p> </td> </tr> </table>			<p>Australia &amp; New Zealand Banking Group Bank Hapoalim Bank of America Bank of New York Mellon Bank of Tokyo—Mitsubishi UFJ BMO Financial Group BNP Paribus Branch Banking &amp; Trust Co. Brown Borthers Harriman &amp; Co. Calyon</p>	<p>Compass Bank Dresdner Kleinwort DVB Bank DZ Bank Fortis Financial Services LLC GE Commercial Finance HSBC Bank HSBC Corporate Global Banking &amp; Markets Hypo Vereinsbank ING</p>	<p>PNC Financial Services Rabobank Nederland Royal Bank of Canada Royal Bank of Scotland (Citizens) Skandinaviska Enskilda Banken Societe Generale Standard Bank Standard Chartered Bank Sunitomo Mitsui Banking Corporation SunTrust Banks Inc. TD Securities</p>
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	<p>Capital One CIBC World Markets The CIT Group Citigroup Commerzbank Credit Industriel et Commercial</p>	<p>JP Morgan Chase KBC Bank Landesbank Baden-Wurttemberg Lloyds TSB National Australia Bank Nordea Bank</p>	<p>The Sumitomo Trust &amp; Banking Co., Ltd. Wachovia Corporation Wells Fargo Bank Westpac Banking Corporation</p>	
<p><b>Topeka</b> Page 91</p>	<p>As part of our compensation objective in 2008 to retain our Named Executive Officers by maintaining competitive pay practices within the financial services sector, the Compensation Committee identified two competitive labor markets from which to compare similar executive positions as benchmarks for our Named Executive Officers' total cash compensation and benefits. These were: (1) GSEs, including the other 11 Federal Home Loan Banks; and (2) financial services institutions in the Midwest labor market.</p> <p>The decision to remain competitive with GSEs and, at the same time, consider the broader labor market of financial services institutions in the Midwest reflects our belief that the knowledge and skills necessary to effectively perform the Named Executive Officers' duties at the FHLBank may be developed as a result of experience not only at other GSEs, in particular the other 11 Federal Home Loan Banks, but also at a variety of other financial services institutions. The decision to limit its consideration of other financial services institutions to those located in the Midwest reflects our belief that: (1) Topeka's Midwestern culture is more likely to appeal to candidates from the Midwest, versus the East Coast or the West Coast; and (2) Midwestern compensation practices are the best comparator for a Topeka-based financial services institution.</p> <p>With respect to benchmarking the other GSEs, the compensation consultant summarized compensation data reported by the other GSEs, and in particular the FHLBank System, to assist the Compensation Committee in aligning the Named Executive Officers' cash compensation with the FHLBanks in accordance with the percentile range identified by the Compensation Committee for such purposes.</p> <p>In June of 2008, the Compensation Committee revised the defined labor market consisting of GSEs to include only the FHLBanks for fiscal year 2009 compensation decisions related to the Named Executive Officers total compensation.</p> <p>We recognize that our organizational structure as a cooperatively owned GSE prevents us from making straightforward comparisons with other Midwestern financial services institutions of similar asset size. Consequently, to allow us to effectively utilize this competitive data, the compensation consultant developed a financial services institutions' Asset Normalization Model (ANM). The ANM identifies the relationship between total assets and net income levels within the Midwestern financial services institution sector. That relationship is used to identify the range of asset sizes of Midwestern financial services institutions that have net income levels comparable to ours. The 50th percentile market values of executive officer positions at Midwestern financial services institutions within that range of asset sizes are then computed. Based on the ANM, in 2008, the Compensation Committee made a determination that the financial services defined labor market consisted of Midwestern financial services institutions with assets of \$10 to \$12 billion.</p>			



## Appendix B

July 27, 2009

McLagan is submitting this letter in support of the Federal Home Loan Banks' comment letters regarding the Federal Housing Finance Agency's ("FHFA") proposed rule on Executive Compensation (the "Proposal"), which was published on June 5, 2009 (74 Fed. Reg. 26989 (2009) - to be codified at 12 C.F.R. pt. 1230).

### Background on McLagan's Relationship with the Federal Home Loan Bank System

In the spirit of full disclosure, the FHFA should know that McLagan has provided compensation benchmarking and advisory services to the 12 Federal Home Loan Banks (FHLBanks) and the Office of Finance independently, beginning in 1998 with the Office of Finance. McLagan has been conducting a compensation survey for the FHLBanks since 2005. The survey covers a broad range of financial service firms including regional, national and international banks engaged in various lending and capital markets activities. The FHLBanks independently participate in various other compensation survey programs. From time to time, McLagan also provides compensation and related advisory services to the Board and/or Executive Management of individual FHLBanks including assessment of market compensation trends, a Bank's relative pay positioning versus the market, evaluation of salary administration and design of annual and longer-term incentive plans. The FHLBanks independently engage with other consultants who provide similar services. We are well acquainted with the challenges of determining fair and reasonable pay levels for executives.

### McLagan's Position of Support for the Federal Home Loan Banks' Comment Letter

Based on our reading of the proposed regulation, it appears to substitute FHFA's judgment regarding FHLBank executive compensation for the judgment of the respective FHLBank's Boards of Directors. We would caution the FHFA against such a move for the following reasons:

1. Determining reasonable executive compensation requires many diverse inputs in addition to market data. Most importantly there is a need for real insight into the relative complexity of the role versus the benchmark and an assessment of the capability of the individual filling that role. These assessments cannot be made remotely.
2. The FHLBanks' Boards of Directors are most familiar with their individual Bank's performance, needs and constraints and therefore best positioned to determine the process for establishing competitive market pay.
3. In our experience, the FHLBanks already have a robust process used to establish competitive market compensation, which includes defining a compensation and

- benefits philosophy and constructing customized peer groups against which to benchmark relative pay and performance.
4. The FHLBanks also seek to take into account the total compensation and benefits package, volatility/risk of employment, quality of work environment and geographic location in establishing a broad employment proposition versus the external market.
  5. The FHLBanks' executive compensation process is transparent. The details of the process are disclosed in their Compensation Discussion and Analysis included in each Bank's annual Form 10-K and as well as in compensation disclosures included from time to time in Forms 8-K.
  6. The FHLBanks Boards of Directors are comprised of directors or officers of member shareholder institutions and Independent Directors who have a fiduciary responsibility to act in the best interest of shareholders while meeting their public policy mission. There is no motivation for them to approve unreasonable executive compensation.

We recognize that the FHFA has a critical role in ensuring the stability and effectiveness of the Federal Home Loan Bank System, but we strongly believe that the FHFA should only intervene in the compensation process if the FHLBank's Board of Directors are not effectively exercising their responsibilities and proper procedures are not followed.

#### The Use of Market Data Sources in Establishing Reasonable and Comparable Compensation

Market data sources such as surveys are just one set of tools for Board of Directors and their Compensation Committees to make informed decisions within the context of their own Bank's performance, needs and constraints. Surveys provide a useful starting point in establishing competitive pay, but should in no way replace the judgment of Boards of Directors and their Compensation Committees who are most familiar with their needs and constraints.

#### The Compensation Benchmarking Process

The compensation benchmarking process is composed of establishing a philosophy, articulating goals and objectives, determining a comparative peer group of firms, establishing benchmark jobs and defining a desired position versus market. In order to make the best use of external market data, each Bank establishes its own compensation and benefits philosophy. The Banks generally seek to take into account the total compensation and benefits package, volatility/risk of employment, quality of work environment and geographic location in establishing a broad employment proposition versus the external market.

The goals and objectives of the various components of the compensation and benefit plans are to attract, retain and motivate employees. The emphasis on attracting versus retaining and motivating employees must be balanced and continues to evolve as the Banks adjust to their internal needs, the requirements of the markets and their own resource constraints.

*Peer groups of firms* are established based on labor market competitors, business competitors and practical limitations such as the availability of data. Peer groups vary among the Banks reflecting their Boards' unique assessment of competitors, but generally include commercial and regional banks that engage in wholesale lending and/or capital markets activities, as well as the other Federal Home Loan Banks. **Small retail banks, Federal Reserve Banks and Farm Credit Banks have not been included in the FHLBank's peer groups since they engage in significantly different financial activities.** This is consistent with advice McLagan has given FHLBanks on the appropriateness of excluding small retail banks, Federal Reserve Banks and Farm Credit Banks.

- Retail banks not included - The FHLBanks do not engage in retail lending and typically do not recruit from or lose employees to small retail banks.
- Federal Reserve Banks not included – The FHLBanks do not engage in the development or implementation of monetary policy, control the Federal Funds Rate, conduct open market operations, set reserve requirements, operate the discount window, conduct foreign currency operations, conduct supervisory functions, regulatory functions or provide consumer protection – the primary functions of the Federal Reserve Banks. Our experience is that the FHLBanks neither recruit executives from nor lose executives to the Federal Reserve Banks.
- Farm Credit Banks not included – The FHLBanks are involved in similar wholesale lending functions, but focus on dissimilar asset classes (i.e., Federal Home Loan Banks do not focus on agricultural-related lending and leasing activities). Our experience is that, generally speaking, the FHLBanks neither recruit executives from nor lose executives to the Farm Credit Banks.

*Benchmark jobs* are identified based on positions that have similar scope of responsibility and represent reasonable employment opportunities. For example, when using a large commercial/regional bank peer group the Banks typically compare their overall head of the function (e.g., Chief Financial Officer) to a divisional head of the function or “Senior Function Manager” (e.g., Divisional Chief Financial Officer representing a 2<sup>nd</sup> or 3<sup>rd</sup> level direct report to the overall Chief Financial Officer for the firm).

*Relative position versus the market* (e.g., market 25<sup>th</sup>, 50<sup>th</sup> or 75<sup>th</sup> percentile) for a selected executive is based on the peer group and benchmark job selected and may take into account the experience and performance an executive brings to the job as well as overall bank performance. The market statistics may be used in both setting targets and final determination of pay. For example, the market 50<sup>th</sup> percentile may establish the incentive pay target when the individual and Bank “meet” their performance goals while the market 75<sup>th</sup> percentile may be the target when the individual and Bank “exceed” their performance goals. **Prescribing the 50<sup>th</sup> percentile as a maximum pay level does not account for the peer group being used or the unique construct of the role and discourages performance above “target”.**

McLagan's experience working with FHLBank Boards has been that the compensation benchmarking process that establishes philosophy, peer group, benchmark jobs and

relative position versus the market is spiritedly challenged. Board Members are either representatives of member/shareholders or Independent Directors that have a fiduciary obligation to protect the shareholders of the Bank. They are locally based and understand the unique challenges and opportunities of their Banks including the skills and qualities they require of executives. The Boards of the Banks we work with have accepted, rejected and modified our recommendations through the exercise of their judgment and what they believe is in the best interest of their Bank. The process they employ in making these decisions is detailed in their Compensation Discussion and Analysis, which is included in each Bank's annual Form 10-K, as well as in compensation disclosures included in Forms 8-K that are filed from time to time.

#### Other General Considerations

Availability of non-public data needs to be determined when establishing peer groups based on specific firms level of participation in survey programs and certain restrictions on the use of confidential data.

Market data sources may define total compensation slightly differently or refer to it in different terms. The definition of total compensation should be scrutinized when comparing various market sources as well as the timing of the release of such information to ensure comparability.

The definition of "executive management" differs considerably. McLagan typically defines executive management as those individuals who lead a major function, provide strategic direction and set policy for the Bank. Within the FHLBanks major functions would typically include Executive Management (e.g., CEO, COO, and Head of Strategy), Legal, Financial Control/Reporting, Portfolio/Asset & Liability Management, Risk, Member Sales/Relations, Operations, Affordable Housing/Community Investment, Administration, Information Technology, Human Resources, and Marketing/Communications/Government Affairs. As a practical matter the Top 10 paid employees within each Federal Home Loan Bank would in almost all cases capture the individuals responsible for all the functions listed above since many executives manage multiple functions.

Sincerely yours,



Head of Corporate and Consumer Banking Consulting  
McLagan