



Independent Bankers of Colorado

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August 4, 2009

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552

Attention: Comments/RIN 2590-AA12

Dear Mr. Pollard:

The Independent Bankers of Colorado (IBC), exclusively representing independent community banks throughout Colorado, welcomes this opportunity to comment on the Executive Compensation rule proposed by the Federal Housing Finance Agency (FHFA). The proposed rule would establish the requirements and processes regarding the setting and payment of compensation provided to the executive officers of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks (FHLBanks) and the FHLBank Office of Finance.

The vast majority of community banks are FHLBank members. Community banks do not want their FHLBanks to pay their employees excessive compensation, but they do see that it is very important that the FHLBanks be able to offer fair compensation packages that can attract experienced and talented employees. Compensation for the officers of Fannie Mae and Freddie Mac should also be of a sufficient amount to attract and retain staff with the needed expertise and experience, but not be an amount that is excessive when compared to similar institutions. This is particularly challenging since these to institutions are under conservatorship with an uncertain future.

The statute empowers the director of the FHFA to prohibit Fannie Mae, Freddie Mac and the FHLBanks from providing any executive officer 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. The statute also specifies that the director may not prescribe or set a specific level. Unfortunately, in our view the FHFA proposes to go beyond this statutory authority in proposing a framework that gives the agency greater control over the compensation

of FHLBank executives than we believe that Congress intended. Indeed, by stating in the proposed rule that the FHFA generally considers “comparable compensation” to be at or below the median compensation for a given position at similar institutions, the FHFA has established a cap on compensation. In our view, setting such a cap would be prohibited by the statute because it would prescribe or set a specific level or range of compensation.

The FHFA states in the preamble of the proposed rule that it may consider the Federal Reserve Banks and the Farm Credit Banks as examples of appropriate comparators to assess the reasonableness and comparability of executive compensation provided by the FHLBanks. We are concerned that too often specific measurement suggestions made in a regulation become the standard in the examination process. We agree that these institutions (along with other FHLBanks) may be an appropriate basis for comparability, but comparability should not be limited to these institutions alone or become de facto.

Compensation surveys of financial services institutions (which may also include data from Federal Reserve and Farm Credit Banks) are readily available and can provide detailed comparative data, including geographic data that reflects different costs of living. Use of this data may provide a much closer match based on the unique characteristics and complexity of the institutions and the components of the compensation package. While a compensation target can be based on a median amount, it is appropriate to make adjustments above or below the median based on the institution’s complexity, size, and the background and experience of the employee whose compensation is being set.

The setting of compensation is a duty of the board of directors of each FHLBank, not the FHFA. The FHFA should examine the process used by the board in determining compensation and determine if the compensation is reasonable and comparable given the particular characteristics of the employing institution. In the current environment where there is a move to enable shareholders to have a greater say in compensation, the shareholder owners of FHLBanks are in a unique position to voice their concern if they view compensation as excessive, or have concerns about other practices of their FHLBanks, because of their active involvement in the nomination and election of directors. Indeed, members elect members to a controlling number of board seats, due to the local, cooperative structure of the FHLBanks.

Thank you for considering our comments on the proposed rule.

Sincerely,

Barbara Walker

Executive Director