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November 4, 2009

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

Attention: Comments/RIN 2590-AA30

Dear Mr. Pollard,

The Independent Community Bankers of America<sup>1</sup> (ICBA) welcomes the opportunity to comment on the proposed rule regarding the Board of Directors of Federal Home Loan Bank System Office of Finance. ICBA supports the proposed rule as it significantly improves the governance of the Office of Finance (OF). We offer several additional comments and suggestions below.

### **Background**

The Federal Home Loan Bank (FHLB) Office of Finance (OF) issues consolidated obligations on which the FHLBs are jointly and severally liable and publishes combined financial reports on the FHLB system. Currently, the OF is governed by a three-person board of directors, the composition and functions of which are determined by regulations. The Federal Housing Finance Agency (FHFA) states that its experience with the system and with the OF's combined financial reports during the recent period of market stress

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<sup>1</sup> *The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

*With nearly 5,000 members, representing more than 20,000 locations nationwide and employing over 300,000 Americans, ICBA members hold \$1 trillion in assets, \$800 billion in deposits, and \$700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).*

suggests that the OF and the system could benefit from a reconstituted and strengthened board.

The FHFA is proposing a number of changes to the size and structure of the OF board of directors and how it exercises oversight over the process for preparing the system's combined financial reports. The FHFA believes that these changes will assist the FHLBs in coordinating among themselves the process of providing the OF the necessary information to prepare the system's combined financial reports and that these changes will facilitate accurate and meaningful disclosure in the combined reports, garnering more market confidence.

### **Proposal**

The FHFA proposes to expand the OF board to include all of the FHLB presidents plus an audit committee comprised of three to five independent directors and empower the audit committee to ensure that the combined financial reports are compiled using common accounting policies and procedures across the system.

The independent directors shall be citizens of the U.S. who, as a group, shall have substantial experience in financial and accounting matters. They may not be officers, directors or employees of any FHLB or FHLB member, be affiliated with any consolidated obligations selling or dealer group member under contract with the OF or hold shares or any other financial interest in any member of a FHLB or in any such dealer group member in an amount greater than the lesser of (A) \$250,000 or (B) .01% of the market capitalization of the member or dealer. A holding company of a FHLB member shall be deemed to be a member if the assets of the holding company's member subsidiaries constitute 35% or more of the consolidated assets of the holding company.

Independent directors will serve 5-year terms. The FHFA will fill the initial independent director positions by appointment. Each FHLB will have the right to nominate one person for consideration for appointment. Subsequently, directors will be elected by a majority vote of the OF board of directors, subject to the FHFA's review of and non-objection to each new independent director. The initial Chairman will be appointed by the FHFA from among the independent directors. The initial Vice Chairman will be selected by the FHFA from among all directors. Subsequently, the Chair will be elected from the independent directors by the board; the Vice Chair will be elected by the board from all directors.

ICBA supports the expansion of the OF's board of directors as proposed. Since all 12 FHLBs are jointly and severally liable for the debt issued by the OF, it is appropriate that all 12 are represented on the OF's board. We believe providing the board with 3 to 5 independent directors will ensure a beneficial "outside the system" perspective. To foster independence of the FHFA from the OF, we suggest that the FHFA permit the OF's board of directors to elect the initial directors, Chairman and Vice Chairman, with FHFA concurrence.

**Audit Committee**

The proposed rule would create an audit committee comprised of the independent directors and it would be empowered to ensure that the combined financial reports are compiled using common accounting policies and procedures across the 12 FHLBs. We are concerned that this element of the proposal would create conflict in that the FHLBs each have an audit committee yet the FHFA would empower the OF's audit committee to de facto create accounting policies for the system. We recommend that a more appropriate approach would be to charge the OF audit committee with overseeing the combined financial statements and make recommendations to the OF board regarding accounting policy changes needed to ensure consistency across the system. The ultimate responsibility for establishing policy and procedures should be in the hands of the OF board and its relationship with its audit committee should mirror the relationship between the FHLB boards and their audit committees.

We appreciate the opportunity to comment on the proposed rule. If you have any questions about our views, I may be reached by email at [ann.grochala@icba.org](mailto:ann.grochala@icba.org) or by phone at 202-659-8111.

Sincerely,

Ann M. Grochala  
Vice President, Lending and Accounting Policy

