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June 14, 2004

Alfred M. Pollard
General Counsel
Office of Federal Housing Enterprise Oversight
4th Floor
1700 G Street, NW
Washington, DC 20552

Attention: Comments/RIN 2550-AA24

Dear Mr. Pollard:

The Independent Community Bankers of America (ICBA)¹ welcomes the opportunity to comment on the proposal by the Office of Federal Housing Enterprise Oversight (OFHEO) to amend its corporate governance regulations applicable to Fannie Mae and Freddie Mac (“Enterprises” or “GSEs”). OFHEO proposes the amendments as a result of the findings and conclusions of its *Report of the Special Examination of Freddie Mac* as well as developments in law, supervision and industry standards.

ICBA supports sound corporate governance for all corporations and we support a number of the efforts undertaken by the securities exchanges and the Securities and Exchange Commission (SEC) to improve corporate governance and director independence. However, ICBA has raised concerns that some of the requirements of the Sarbanes-Oxley Act of 2002 are unnecessarily costly and burdensome for community banks. Similarly, we are concerned that OFHEO’s proposed rule is overly burdensome for Fannie Mae and Freddie Mac and aspects may lessen the effectiveness of accounting oversight by outside auditors.

Fannie Mae has voluntarily registered its common stock with the SEC and Freddie Mac is in the process of doing so. With SEC registration comes a regime of reporting and other

¹ **About ICBA**

The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to protecting the interests of the community banking industry. 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. For more information, visit ICBA's website at www.icba.org.

ICBA: The Nation's Leading Voice for Community Bankssm

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requirements that have been significantly increased as a result of the passage of the Sarbanes-Oxley Act of 2002. Likewise, as companies listed on the New York Stock Exchange (NYSE), the GSEs are subject to the many corporate governance rules and listing requirements of the NYSE. Since these are publicly traded companies, they should be subject to the governance, reporting and disclosure requirements that all public companies of their size are subject to.

Audit Firm Rotation

ICBA opposes OFHEO's proposed requirement that at least every ten years, an enterprise must change its external audit firm. This requirement is much stricter than that for other public companies that must rotate their audit partners, but not the entire firm. Fannie Mae would need to change external auditors no later than January 1, 2006 and Freddie Mac would make the change no later than January 1, 2009. Fannie Mae and Freddie Mac are large, complex firms that must engage an external audit firm with a high level of expertise and resources. With the consolidation that has occurred in the accounting industry, ICBA is concerned there are not a sufficient number of appropriate firms to enable such frequent change in firms. Staff of a new firm that is engaged will need a significant period of time just to become familiar with the unique operations of the Enterprise.

The Government Accounting Office (GAO) has also raised concerns about mandatory firm rotations. At the request of Congress, the GAO studied mandatory audit firm rotation and issued a report in 2003 in which it stated that mandatory rotation may not be the most efficient way to strengthen auditor independence and improve audit quality considering the additional financial costs and the loss of institutional knowledge of the company's previous auditor of record. Thus, we urge OFHEO not to go forward with the requirement to rotate firms. We believe impartial oversight and review of accounting and other matters can be accomplished with the rotation of audit partners, as called for by the Sarbanes-Oxley Act. The requirement of firm rotation is unnecessary and problematic.

Directors and Officers

ICBA believes that it should be up to the board of directors to determine whether or not to separate the position of chairman of board and the position of chief executive officer. We see it as an appropriate function of good corporate governance for the board of directors to look closely at the operations and structure of the business they oversee and determine what officers are appropriate, just as they determine who is the most appropriate person or persons to fill them. We believe that OFHEO has sufficient powers to address any such problems in management or governance through its examination and supervision processes and it does not need to mandate positions by regulation.

ICBA also has significant concerns about OFHEO's proposal to place term and age limits on directors. OFHEO states that by limiting to 10 years the length of time a director could serve, or mandating that a director cannot serve past the age of 72 (which ever comes first), this would promote the highest level of functioning of the board of directors. We find the proposed limits unnecessarily restrictive given that members of the Board of Governors of the Federal Reserve are appointed to 14-year terms (and can serve

additional time if appointed to an unexpired term) and can serve beyond the age of 72. If the Federal Reserve had as stringent service limits as OFHEO proposes, Alan Greenspan would have been forced to leave the Federal Reserve several years ago.

Summary

OFHEO states that given their federal charters, public mission and the size and significance of their operations in capital markets and the banking system, Fannie Mae and Freddie Mac should adhere to certain policies that may not be applicable to all companies, but should nevertheless apply to them.

ICBA believes that OFHEO should look to the requirements already in place for public companies and for federally regulated financial institutions to ensure consistency for issues such codes of conduct, the prohibition of extension of credit to board members and executive officers, disclosure certifications and other issues. While both Fannie Mae and Freddie Mac serve a special public purpose, imposing overly burdensome and unfairly stringent corporate governance requirements may inhibit their performance towards that purpose and the result may well be higher homeownership costs.

We appreciate the opportunity to comment. If you have any questions about our comments, please contact the undersigned at 202-659-8111 or ann.grochala@icba.org.

Sincerely,



Ann M. Grochala
Director,
Lending and Accounting Policy