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CHAIRMAN JOHN T. KORSMO'S OPENING STATEMENT AT A HEARING ON CORPORATE GOVERNANCE OF FEDERAL HOME LOAN BANKS

Chairman John T. Korsmo made the following opening statement today at a public hearing to discuss the corporate governance of Federal Home Loan Banks. "Click here to view the testimony and comments submitted for the hearing."

Good morning. I call this hearing of the Federal Housing Finance Board to order.

To all here who are going to speak today or who submitted written testimony, thank you. This hearing has prompted a great deal of interest, so much so that we will hold a follow-up hearing on Tuesday, February 10th, to receive further testimony.

The response, I believe, demonstrates the widespread appreciation of the importance of governance of the Federal Home Loan Banks, these large financial institutions that play a critical role in our nation's system of housing finance.

Certainly, I have made the best corporate governance a focus of mine as chairman of the Federal Housing Finance Board, a goal I know my colleagues have consistently shared. Last year, as many of you know, the Office of Supervision completed a horizontal review of corporate governance practices at the Federal Home Loan Banks, an assessment that today's hearing builds upon. In addition, I have had many productive conversations on governance topics with directors and executives of the Banks, and I appreciate their insights.

The purpose of today's hearing – and next month's session – is to collect suggestions and information about possible changes to Finance Board regulations or to the Federal Home Loan Bank Act, changes that would serve to help the boards of directors of the Banks to better identify, measure, monitor, and control the risks on the Banks' balance sheet.

The basic structure and prerogatives of a Federal Home Loan Bank board are little changed from the template Congress enacted in 1932. But the financial world looks profoundly different than it did more than seven decades ago.

Now, with the demands placed on boards by the evolution of these dozen cooperatives into major financial services providers with global reach, the requirements and standards set by Sarbanes-Oxley, and by the obligations associated with SEC registration, it is timely to ask directors of the 12 Federal Home Loan Banks, their members, and other stakeholders whether there is room for constructive change.

Another profound but less tangible change is also under way. Gramm-Leach-Bliley devolved into the hands of each board full authority and responsibility for charting the business course of its respective Bank and the duty of prudent management. Gramm-Leach-Bliley also completed the evolution of the Federal Housing Finance Board into an arm's-length safety and soundness regulator.

To fulfill these statutory mandates, my colleagues and I have instituted steps that are thoroughly changing the way we oversee the 12 Federal Home Loan Banks and the Office of Finance.

The regulator no longer participates in operating Banks. The regulator no longer dictates how to operate banks. The regulator no longer serves as an advocate or buffer for Banks in public policy debate.

Instead, the Finance Board now examines and supervises to determine whether the choices made by each board of directors are informed and effective choices. To those of you who are executives of a commercial bank, thrift, or credit union, this is the familiar relationship of federal banking regulators to the institutions you manage. But in the experience of Federal Home Loan Banks, this is a sea change. Becoming accustomed to this arm's-length relationship is a challenge.

But this much is clear so far, with the regulator no longer figuratively in the boardroom signing-off on each decision, the capabilities and practices of each Federal Home Loan Bank board deserve a fresh look.

My colleagues and I are not asking any witness to endorse or critique a proposal – none is before us. We only ask for your best, most candid thoughts based on actual experience.

With Congress set to resume work on possible ways to improve regulation of the housing GSEs, it is also appropriate that the Finance Board be ready to identify what, if any, other changes to statute or regulations may better equip directors to fulfill their obligation to be the ultimate authority at each Federal Home Loan Bank, and, their responsibilities to represent the first line of defense for the taxpayers.

The witness list for today and for next month's session represents a broad cross-section of both members and directors of Federal Home Loan Banks and others with important voices in financial and housing policy in this nation. We are eager to hear from the boards of all the Banks. But, we by no means seek a consensus – there will be time for building consensus when and if a proposal is developed – what we do seek is a variety of views, experiences, and suggestions.

Increasingly, the make up of both the membership and the balance sheets of the 12 Banks is marked by great variety. No longer can one presume that all Banks share the same experiences. Speaking for myself, I also look forward to hearing whether there are still sound reasons to govern a 300 member Federal Home Loan Bank the same way a 1,000 member Bank is governed; whether a $50 billion dollar Bank should have the same board composition as one twice that size; and whether a cooperative focused on building and prudently managing a large mortgage portfolio is best served by board governance practices developed to manage a portfolio of advances only.

As I mentioned earlier, the interest in this hearing is high, and we have five people with us to testify in person, representing their trade associations.

We are delighted to welcome on our first panel:

- David Ledford, Staff Vice President of Federal Regulatory and Housing Policy of the National Association of Home Builders;
- Carol Wayman, Director of Policy, for the National Congress for Community Economic Development;
- Robert D. Broeksmit, president and CEO of B.F. Saul Mortgage Company, representing the Mortgage Bankers Association.

On our second panel are:

- J. Edward Norris III, Chairman, President and CEO of Plantation Federal Bank. Mr. Norris is representing America's Community Bankers. And,
- David Hayes, President and CEO of Security Bank of Dyerburg, Tennessee, speaking on behalf of the Independent Community Bankers of America.

We have received written testimony from the Federal Home Loan Bank of Des Moines, the Federal Home Loan Bank of Boston, the National Association of Realtors, the Credit Union National Association, and the American Bankers Association. Without objection, these comments will be included in the record of the hearing.

To everyone participating, you have my thanks for taking the time to collect your ideas and offer them at this public forum today.

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