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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.

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

This is the second hearing on the topic of the corporate governance of the Federal Home Loan Banks. I have a few brief opening remarks before we proceed to take testimony, but first let me open by saying thank you to those who are here to offer your views today. I appreciate the time and thought you have all given the issues before us.

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

Our first hearing, held January 23, produced a wealth of opinions, observations, ideas, and recommendations.

We heard testimony from representatives of trade associations – the National Association of Home Builders, the Mortgage Bankers Association, the National Congress for Community Economic Development, the Independent Community Bankers of America, and America's Community Bankers – and received written statements, as well, from the National Credit Union Association and the American Bankers Association.

Today we build on that testimony with two panels. First, we will hear from two students of corporate governance – more than students, of course. Peter Wallison and Madeleine Condit are true experts in governance issues, with extensive experience with financial institutions, to say the least.

The second panel consists of representatives of the Federal Home Loan Banks, four members of Boards of Directors – Mike Radway of the Seattle Bank, Rick Mroz from New York, Mike Middleton of Atlanta, and Bob Barone of San Francisco; and one executive, President Andy Jetter of the Federal Home Loan Bank of Topeka.

The members of our second panel are there every day where the rubber meets the road, if you will, on corporate governance, driving your institutions smoothly, we always hope, but also encountering ... in the real world ... a few bumps along the way.

As I noted at the previous hearing, the level of interest in testifying at both hearings demonstrates persuasively that the Federal Home Loan Banks, their members, and others who have an interest in the system, take very seriously the issues surrounding the corporate governance of these very large financial institutions.

The world in which these institutions operate – the marketplace, the regulatory structure, and the political environment – have undergone dramatic changes since Congress created the Federal Home Loan Banks in 1932. And I think I am safe in saying, the world will continue to change, and at an increasing pace.

And yet, while the world has changed, the basic structure and prerogatives of a board of directors of a Federal Home Loan Bank remain largely unchanged from what they were seven-plus decades ago.

It seems axiomatic that, for the 12 Federal Home Loan Banks to continue to operate successfully, and to continue to fulfill their public mission as government-sponsored enterprises, their boards and management teams – and their practices of corporate governance – must change.... evolve.... react... as well.

Certainly the Federal Housing Finance Board has also experienced change, most recently with passage of the Gramm-Leach-Bliley legislation. As I noted at our previous hearing, the Finance Board no longer bears responsibility for managing the Banks, nor does the agency serve as an advocate or buffer for the Banks in public policy debates.

The Federal Housing Finance Board now functions as an arm's-length regulator, charged with ensuring that the Federal Home Loan Banks are safe and sound so they can serve as a reliable source of liquidity and funding for the nation's housing finance and community investment needs.

The Finance Board's relationship to each Bank's board of directors is now one of examination and supervision, determining whether the choices made by each board of directors are informed and effective.

Which is all in the way of saying, the responsibilities facing the boards of directors of the Federal Home Loan Banks are greater than at any time in the past. To protect the Banks and their housing-finance and affordable-housing missions....to protect the investors in these institutions' debt ... and to protect the public who stands behind the Banks and their congressional charters ...it is incumbent upon all of us to encourage the strongest, best practices of corporate governance.

Just as with last month's hearing, today we gather information, insights, and, if offered, strong opinions. The Board is not at this point looking for consensus or a completed agenda of recommendations. Especially given the current debate in Congress over GSE regulation, I believe it is time for fresh perspectives and serious thought. I look forward to a productive session today, and again, my thanks to those who have come to Washington to offer your...fresh perspectives and serious thought.

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