Testimony of Richard S. Mroz[*]
Chairman
FHLBNY-External Affairs Committee
Presented at the Federal Housing Finance Board's
Corporate Governance Hearing

February 10, 2004

Chairman Korsmo and members of the Federal Housing Finance Board, I am Richard S. Mroz. I am an appointed Member of the Board of Directors of the New York Home Loan Bank and Chairman of the Bank's External Affairs Committee.

I appreciate, on behalf of the New York Bank, the opportunity to provide testimony to the Federal Housing Finance Board in connection with the Finance Board's second public hearing on issues pertaining to the corporate governance of the Federal Home Loan Banks.

I hope this hearing proves as productive as the first hearing on January 23, 2004. I have reviewed the testimony of the National Association of Home Builders, the National Congress of Community and Economic Development, the Mortgage Bankers Association, America's Community Bankers, the Independent Community Bankers Association, the Credit Union National Association, the President of the Boston Home Loan Bank and the Chairman of the Des Moines Home Loan Bank. Many ideas worthy of the Federal Housing Finance Board's consideration were brought to light. The mere fact that virtually every housing/lending-related industry group testified underscores the importance of corporate governance for the Home Loan Bank System as well as the importance of the Home Loan Bank System to the housing and community development industry.

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The Federal Home Loan Bank of New York wishes to commend the many actions taken by the Finance Board and Chairman Korsmo to change the way the Federal Housing Finance Board oversees the Home Loan Banks and the Office of Finance. In particular, the Federal Home Loan Bank of New York acknowledges that the Federal Housing Finance Board no longer serves as a "back seat driver" at the Banks but rather serves as an arms-length regulator.

The Federal Home Loan Bank of New York applauds the Federal Housing Finance Board for making corporate governance practices an area of focus and study. We agree that the Federal Housing Finance Board's attention to governance is well placed. Especially in light of Congress' continuing focus on the regulation of the housing GSEs, it makes sense that the Federal Housing Finance Board should be prepared to identify potential changes to laws and/or regulations that might help Bank Directors better fulfill their obligations and responsibilities.

The Federal Home Loan Bank of New York wishes to note for the record that governance has been a topic of concern at the Federal Housing Finance Board for some time, as evidenced by the Office of Supervision's "Report of the Horizontal Review of Board Governance of the Federal Home Loan Banks" conducted in 2003. As a Director of the New York Bank, I was not only pleased to be a participant in the survey, but also delighted to see the final product. During our Board's discussions on various issues, I would ask for comparative information as to how the other 11 Banks might manage a certain issue or seek information on comparable policies or procedures we were evaluating. On many of those occasions we were provided incomplete or only anecdotal information for such comparative analysis. Therefore, the horizontal review is a good piece of work. It will help standardize the governance practices, where appropriate, in the 12 regionally owned and directed Home Loan Banks.

The Federal Home Loan Bank of New York recognizes that there is no current governance proposal currently "on the table" nor has a consensus been reached on any proposal. We will certainly have more to say when such a proposal is formally presented for consideration. That being said, we are eager to participate in any System-wide discussions or dialogue potentially leading to the development of strategies intended to help the Boards of the Home Loan Banks better identify, measure, monitor, and control risk.

Here, we would like to stress that while the Bank System may be a "government-sponsored enterprise," it is also a cooperative owned by approximately 8,100 community-lending institutions. Needless to say, these owners need to be heard from and their views thoroughly considered before any corporate governance proposal is drafted. As such, we support the Federal Housing Finance Board in its current ongoing efforts to solicit public input on the critical matter of governance.

The Federal Home Loan Bank of New York believes as an initial premise that following (to the extent possible) the various requirements and standards established by the Sarbanes-Oxley Act of 2002 with respect to Boards, to Board Committees, and codes of the ethics is a good place to start, when it comes to establishing guidelines and principles for governance.

And there is much more to discuss in the weeks and months ahead. In the testimony of January 23, 2004, the two Home Loan Banks who presented testimony, Boston and Des Moines, supported the elimination of this statutorily imposed director compensation cap. I note that both Banks discuss the potential future problems of recruitment and retention of the highest quality directors when compensation is significantly below that of those directors of comparable organizations. Therefore, it does seem worthwhile for the Federal Housing Finance Board to consider working with Congress to increase or possibly eliminate the low cap.

Both the Boston and Des Moines Bank called for the Federal Housing Finance Board to favorably consider reappointments when warranted. Certainly the Home Loan Banks are complex organizations and Directors who have met their fiduciary responsibilities, have current insight into the organization of a particular Bank, and have met the duties of a public interest Director should be strongly reconsidered for re-appointment. I believe the Federal Housing Finance Board understands these arguments. I note that in the latest group of appointments announced on January 23rd, seven of the 25 were reappointments.

The evaluation of the proposals and ideas that are being discussed today and were put on the table on January 23, 2004, is no easy task. Indeed the Finance Board has many points of view to consider.

To illustrate this observation, I point to the somewhat conflicting views taken by the Boston and Des Moines Bank on the question of having financial management expertise being a part of the criteria for at least one of the appointed Directors. The Des Moines Bank supports the idea, pointing out that the Home Loan Banks are complicated large financial institutions that are "necessarily involved in complicated transactions and Board Members need to possess the relevant business skills to perform appropriate oversight and analysis." However, the Boston Bank notes that this is a well-intended proposal but it could have the unintended consequences of encouraging other Directors to defer to the designated director and discourage them from using their own independent judgment.

While the New York Board has not taken a stand on the matter of using financial expertise as a criterion, I would like to express my personal view. As an appointed director beginning a third year on a Board, I know from first hand experience that initially the learning curve is steep -- but not insurmountable. However, I must comment, that many of my fellow directors on the bank boards, even industry elected directors -- those with long careers in banking -- find the learning curve on the Home Loan Banks to be steep as well.

My experiences as a former public official, and now as a lawyer advising corporate and institutional clients, leads me to conclude that board governance is vibrant when the board members bring diverse careers, disciplines and experiences. I am not sure that adding hard and fast criterion for director selection is ultimately productive. To me a far more important requirement is selecting directors who would bring to the board table broad-based but proven *managerial* experience.

That concludes my testimony to the Finance Board this morning. Let’s roll up our sleeves and continue with the dialogue to identify possible changes that would promote better governance.