

January 16, 2004

Mr. Shane C. Goettle
Counsel to the Chairman
Federal Housing Finance Board
1777 F Street N.W.
Washington, DC 20006-5210

Re: Public Hearing on Board Governance of the Federal Home Loan Banks

Dear Mr. Goettle,

The Federal Home Loan Bank of Des Moines wants to commend the Federal Housing Finance Board for having this hearing and providing the opportunity to discuss board governance issues. The role of the board of directors is a critical factor in ensuring the safety and soundness of the Federal Home Loan Banks. Board governance and oversight are essential factors in the economic health of any corporation.

I am Chairman and Chief Executive Officer of Alerus Financial in Grand Forks, North Dakota and was recently elected to serve a two-year term as chairman of the board of directors of the Federal Home Loan Bank of Des Moines. The notice for the hearing was received after our last board meeting and the proposed hearings are prior to our next scheduled meeting, so the statements I am making are my own and have not been approved by the full board of directors. However, I feel it is important to comment on several areas that have significant impact on board governance.

The first thing is that new board members need to be appointed in a timely manner. Terms for board members expire on December 31st, but oftentimes appointments are not made until considerably later. This makes it difficult to schedule meetings and provide new directors with adequate time for orientation and review of background information.

New directors need to be selected with the skills and qualifications necessary to be effective board members, including individuals who are "financial experts." The Federal Home Loan Banks are 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.

Along this same line, becoming familiar with a Bank's operations takes some time and it is helpful to have experienced board members who have the institutional knowledge that they have gained by serving more than one three-year term. For example, 14 of our 18 board members have less than three years service on the board. Board members who have performed well and exhibited strong independent judgment should be considered for re-appointment.

Good board governance includes oversight and monitoring of the Bank's operations to ensure they are in compliance with Finance Board regulations. A regulation goes through a process that allows for comment before it is adopted. However, we have received bulletins from the Office of Supervision that are supposed to have the authority of a regulation but have not been processed as such. This makes it difficult for directors to determine an appropriate response since there has not been the same vetting process as with regulations and there is no procedure for comment on any concerns directors may have about these bulletins. It would seem that if the content of a bulletin is of critical importance then it should be proposed as a regulation.

All of the above issues can be remedied by actions of the Federal Housing Finance Board.

The next three areas would require legislative action. The first area concerns director compensation. Recruiting and appointing the most qualified individuals who have strong backgrounds and the skills necessary to be competent board members might be more easily accomplished if the cap on directors' compensation was removed. Each board of directors should be given the authority to establish appropriate compensation for directors.

As I stated earlier, director turnover is a board governance concern. A three-year term is too short a time to fully comprehend all of the complicated transactions and operations of a Bank. Consideration should be given to making the term longer. Having a longer term would give a board the benefit of more experienced directors.

And finally, I would like to suggest that the individual boards of directors be given the authority to select and appoint their public interest directors. This would allow existing board members who know what skills and talents are needed on the board to identify qualified individuals to fill positions. Current board members know their districts and are best suited to know who would be well-informed and dedicated members.

Federal Housing Finance Board

January 16, 2004

Page 3

I respectfully submitted these suggestions and want to again commend the Federal Housing Finance Board for providing this opportunity to comment on statutory and regulatory reforms to enhance board governance of the Federal Home Loan Banks.

Sincerely,

A handwritten signature in black ink that reads "Randy L. Newman". The signature is written in a cursive style with a large, stylized initial "R".

Randy L. Newman
Chairman