FEDERAL HOME LOAN BANK
OF CINCINNATI

David H. Hehman
President

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Federal Housing Finance Board
1777 F Street, NW
Washington, DC 20006-5210

Attention: Public Comments on Board Governance of the FHLBanks

On behalf of the Federal Home Loan Bank of Cincinnati (FHLBank Cincinnati), I commend the Federal Housing Finance Board (FHFB) for scheduling a series of hearings on FHLBank System board governance. As FHLBank System membership, programs and services grow, so do the demands and expectations for Bank management and board governance.

I am privileged to work for an engaged, dedicated board of directors whose structure has served the FHLBank Cincinnati well. Congress also recognized the value of the FHLBank System's cooperative directorships with the expansion of local board governance in the Gramm-Leach-Bliley Act of 1999. Substantially more authority was granted to each of the 12 district boards of directors, recognizing the expertise and regionalisms that shape the 12 boards in their shared mission of housing finance. In Cincinnati, this devolution of authority led to the board-established American Dream Homeownership Challenge, a $1 million targeted affordable homeownership program over and above the mandated Affordable Housing Program. This increased responsibility has reaffirmed the importance of appointed public interest directors to complement the strengths of the elected industry board members. Public Interest Directors bring critical experience and talent to our diverse board committees from audit to housing. In that spirit, I suggest a small number of measures, some of which would require legislative action, to enhance an already successful board structure.

Announce and confirm appointed directorships by December of the year prior to commencement of service. Terms of service end December 31, yet we are often without a full board two or three months into the new year. New and veteran directors alike, as well as FHLBank management, are disadvantaged if new directors do not have adequate time to prepare for strategic planning meetings at the start of each year.

Increase the term of service for all directors to four years. The initial learning curve for new directors is steep, relative to the term of service. FHLBank boards, members and the public at large are better served by directors that have acquired extended institutional knowledge and experience.

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Current compensation levels for directors are well below the industry standard. The demands and requirements of directors are growing with the increasing complexities of the FHLBanks, post-Enron public expectations and enactment of Sarbanes-Oxley legislation. I suggest that the FHLBank boards of directors be allowed to set their own compensation, commensurate with regional and industry norms and in light of safety and soundness standards.

Revisit the prohibition against appointed directors holding a financial interest in a member institution. This broad measure limits the field of appointed directors who can bring diverse knowledge or experience in a variety of areas including finance, affordable housing and community development, and public policy. Perhaps other examples of public servant divestitures, such as establishing temporary blind trusts or deferring benefits and compensation, would be useful models.

Thank you for the opportunity to share my views on this important matter. I welcome your efforts to ensure and enhance the high standards already in place for FHLBank board governance.

Sincerely,

David H. Hehman