Representing Illinois' Real Community Banks

June 2, 2006

Federal Housing Finance Board
1625 Eye Street, N.W.
Washington, D.C. 20006

[also sent via fax to: (202) 408-2580]

ATTENTION: Public Comments

Re: Proposed rule amending 12 CFR Part 915

Dear Madam or Sir:

On behalf of the Community Bankers Association of Illinois (hereinafter, "CBAI"), I am writing to express CBAI's opposition to proposed rulemaking that would amend 12 CFR Part 915 with respect to the process by which directors of Federal Home Loan Banks would be nominated and elected.

The proposed amendments purport to be for the purpose of improving "the corporate governance of each Bank by more closely aligning the experience and skills of individual directors with the expertise the bank has identified" as being beneficial to the board's management of a Federal Home Loan Bank (hereinafter, "FHLB"). However, a likely result of the proposed amendments would be to steer nominations or votes in the direction of candidates who are "preferred" by the FHLB's current leadership and away from candidates who may represent "new" or "different" views or constituencies. There is no evidence that an attempt to influence the nomination or election process in such a way will effectively result in a more safe and more sound FHLB.

In the proposed rulemaking, the Federal Housing Finance Board states that "(s)ome Banks and members have expressed a desire to have such information at the time of voting...." In reviewing the purpose and wisdom of significant rulemaking, it is not necessarily impressive to suggest that the proposed amendments are based on what "some Banks" or "some members" perceive to be a good idea. Did the *majority* of FHLBs and FHLB members demonstrate a groundswell of support or a desperate need for these changes in order to preserve the safe and sound administration of FHLBs? Who are the "some" that influenced the decision to advance this rulemaking, and what are each of their motives? Unless those questions are answered, CBAI remains concerned that the Federal Housing Finance Board would initiate such a proposal based on the wishes of "some" entities.

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The essence of the proposed amendments is that each FHLB would be able to dictate, in communications with its members, the qualifications that the current leadership of that FHLB wants to emphasize for candidates for elective board positions. This is supposed to ensure that voting members will be better educated on the needs of the FHLB so that the voting member will be able to match up its vote(s) with the person most qualified to fit the bill.

Even assuming good intentions behind the proposed rulemaking, it is naive in its simplistic approach and its Utopian projection of how it would benefit the FHLBs. The truth is that this approach will likely result in nominees "tailoring" their resumes to most closely align their qualifications with the descriptions published by the FHLB. It will likely elevate nominees who have quite mediocre skills in certain "preferred" fields of experience over nominees who are excellent leaders with a common sense grasp of relevant issues but who lack experience in the specified "preferred" fields. CBAI believes that the subordination of broad-based excellence, knowledge and leadership to an unimpressive resume that happens to correspond with the FHLB's nominating qualifications *du jour* will not in any way promote the best business interests or the safety and soundness of any FHLB.

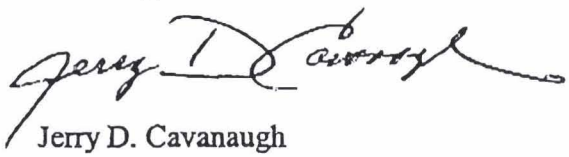
Community banks deserve fair representation on the boards of the FHLBs. If the current majorities on FHLB boards, which do not necessarily reflect community banking philosophies or interests, are able to establish the "preferred" criteria at each stage of nominations and elections for FHLB board positions, it is reasonable for community banks to harbor a concern that the "preferred" criteria that the FHLB communicates to its members might be slanted in such a way as to favor one candidate over another. This type of influence over the nomination and election process does not advance the safety and soundness of the FHLB.

In conclusion, CBAI believes that (1) the proposed rulemaking was initiated without broad-based support or a demonstrated need; (2) the proposed rulemaking may (intentionally or unintentionally) result in insider abuse or insider preference in the sense that the current leadership of an FHLB board can suggest nominating or election qualifications that are most closely associated with their own skill set or with the skill set of candidates whom they prefer; (3) the proposed rulemaking's purported goal of enhancing the safety and soundness of FHLBs will not be met by subordinating dedicated, knowledgeable persons to less impressive individuals who have met bare minimum requirements to establish that they are educated or experienced in the fields that the FHLB happens to be touting at the time of a given nomination or election process; and (4) this influence that may be exerted on the nominating and election process will in all likelihood not be used in a manner that promotes the candidacies of community bankers from smaller institutions.

CBAI is certainly in favor of a well-run, safe and sound FHLB system that serves the needs of its members. Unfortunately, we see nothing in the proposed rulemaking that will accomplish anything beneficial to that system.

Thank you for your attention and consideration of these comments.

Sincerely,



Jerry D. Cavanaugh
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Community Bankers Association of Illinois

cc: David Schroeder
Brian Kiley
Jim Shafer
Larry Maschhoff
Roger Lehmann
Bob Wingert