



NEWS

1777 F Street, N.W., Washington, D.C. 20006
(202) 408-2500

FOR RELEASE:
November 14, 2002
FHFB 02-53

Contact: Carter Wood (202)
408-2817

**CLOSING REMARKS BY FEDERAL HOUSING FINANCE BOARD
CHAIRMAN JOHN T. KORSMO
AT A CONFERENCE OF FEDERAL HOME LOAN BANK DIRECTORS
CORPORATE GOVERNANCE AND THE CULTURE OF RESPONSIBILITY**

Washington, D.C.
November 14, 2002

First of all, thank you to everyone for participating. I appreciate your kind words of comment about what you thought was good about this program.

Let me also say how much I appreciate the commitment all of you have demonstrated, not just by participating in this event, but the commitment you have demonstrated by willing to serve on the boards of directors of these very important institutions.

And as we come to the close, I would be remiss if I didn't mention one thing you have all heard me say many times before, and I don't think I've said it one time since we've been here, so I have to say it now:

Bright, red line of separation.

I'll say it again: Bright red line of separation.

I cannot go through a meeting with directors without speaking that phrase, the phrase that succinctly describes my basic philosophy about how the Federal Housing Finance Board should operate with respect to the Federal Home Loan Bank System.

The Finance Board is not the System. The Finance Board is the safety and soundness and mission regulator of the System. As chairman, I have sought to emphasize the bright red line of separation between the two, reinforcing the new relationships that grew – as I noted a bit earlier – out of policy decisions embraced by the Gramm-Leach-Bliley Act.

Not everyone fully recognizes the significance of those changes, or even that they have occurred. Frankly, who would expect them to? Despite its enormous role in supporting the financing of housing in our nation, the Federal Home Loan Bank System remains, let's face it, a little under-appreciated.

So it's no surprise that the San Jose Mercury News, for example, publishes "cost of funds" data in every Saturday paper, attributing the information to the Federal Home Loan Bank Board, which of course hasn't existed in 12 years.

And occasionally people still call on me to defend the system.

I am ready and eager to explain the System and how the Federal Housing Finance Board regulates it for safety and soundness and mission compliance. However, defending or even critiquing the System is not a responsibility that lies with the Finance Board and its chairman. I believe that responsibility lies with all of you.

Certainly, you have a great story to tell. The Banks are an essential source of liquidity for nearly 8,000 member financial institutions, many at the very center of their communities. We certainly recognize AHP as a community development program, but the mere fact that the System provides liquidity - at least to banks where I come from, that would otherwise lack a source of capital, of liquidity, were it not for the Federal Home Loan Bank System - is very important to fulfilling its economic development and community development mission.

The Affordable Housing Program is a tremendous success. As we have all heard, \$246 million in grants were given out throughout the system in the year 2001. Almost every day there's a news story somewhere about a project aided by AHP: housing for seniors, a building remodeled for the low-income handicapped, or the proud purchase of a home in Decorah, Iowa, or Waterville, Maine, for example, homes that are affordable because of a Federal Home Loan Bank.

But you - individual board members - have to tell these stories. And it's all of you who need to explain how the System works, and how important you believe it to be to the nation.

Let me make clear. I mean no disrespect to Bank executives or the government relations experts the Banks hire to represent their interests in Washington. The fact is, however, a Congressman or Senator is much more inclined to listen to a community leader from his or her hometown or home state. They appreciate someone who can get beyond the broad framework of an issue to explain what it means on Main Street in Cherry Hill, or in Akron, or in Fargo.

Given the natural dynamics of the marketplace, continued scrutiny of GSEs, and perhaps even the new majorities in Congress, it's safe to say the Federal Home Loan Banks can expect significant changes in the coming years. And as that happens, you may, in fact, be called on to defend the System.

Your arguments, your explanations, your insights will carry so much more weight if you, as a member of a Bank's Board of Directors, can speak persuasively about the Bank's commitment to strong corporate governance.

But not just the Bank's. All of you, as board members, should be able to speak persuasively about YOUR commitment to the high ethical standards, sound business practices, and dedication to the public's interest that corporate governance entails.

Thank you for joining us. I hope this has been a productive session for all of you, and I look forward to continuing our shared goal of making the Federal Home Loan Bank System recognized nationally as a leader in corporate governance.

