



**Maryland Bankers Association**

**KATHLEEN M. MURPHY**  
PRESIDENT & CEO

August 4, 2009

Alfred M. Pollard, Esq.  
General Counsel  
Federal Housing Finance Agency  
Fourth Floor  
1700 G Street, N.W.  
Washington, D.C. 20552  
Attention: Comments/RIN 2590-AA12

Re: Proposed Rule on Executive Compensation

Dear Mr. Pollard:

As the President and CEO of the Maryland Bankers Association, I am writing on behalf of our members to comment on the Federal Housing Finance Agency's ("FHFA") proposed rule on Executive Compensation published on June 5, 2009 (the "Proposal"). The Proposal contains regulations on executive compensation that would implement sections 1113 and 1117 of the Housing and Economic Recovery Act of 2008 ("HERA") with respect to the Federal Home Loan Banks (FHLBanks).

Founded in 1896, the Maryland Bankers Association (MBA) was created to make Maryland banks stronger and more successful. MBA's members are FDIC-insured banks of all sizes and charter types, with more than 1,800 branches operating in Maryland and holding nearly 90 percent of the \$96 billion in deposits in the state. We appreciate this opportunity to comment.

On behalf of our members, I am concerned that the Proposal fails to take into account the unique cooperative ownership structure at the FHLBanks and its impact on FHLBank executive compensation. I am also concerned that the Proposal would, in effect, substitute an FHFA determined formula for setting executive compensation (by apparently specifying particular institutions – the Federal Reserve Banks and the Farm Credit Banks – as comparator institutions and by establishing a presumptive median compensation level cap) at each of the FHLBanks for the discretion of the independent boards of directors of the FHLBanks who are elected by the member/owners (shareholders) of the FHLBanks.

The members of the Maryland Bankers Association who are shareholders/members of the FHLBanks are very familiar with the methods and processes for determining compensation. We believe that the FHLBanks already have in place a robust and

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transparent process for establishing competitive and reasonable market compensation that prevents the payment of excessive compensation to FHLBank executives.

Each of the FHLBanks is a separate legal entity, owned by its member financial institutions, with its own board of directors and management. By law, membership at each of the FHLBanks is limited to eligible financial institutions that are located within a FHLBank's geographic district. For Maryland, this is the Federal Home Loan Bank of Atlanta district. Each FHLBank operates under control of a board of directors elected by member institutions. A majority of these directors are individuals who are directors or officers of member institutions. The other directors are independent directors who either are public interest directors, who are required to have a background in representing consumer interests, or other independent directors, who have specified financial, accounting or risk management experience. None of the directors are members of management of the Bank. Executive compensation decisions at the FHLBanks are made by the board of directors upon the recommendation of the board's compensation committee.

Just as with other financial institutions, the shareholders and the boards of directors have a strong interest in attracting and retaining the most qualified executives to ensure the FHLBanks have the best executive talent necessary to manage the complex financial decisions that are inherent in their operations. This means that the boards of directors must have the discretion to pay sufficient compensation to the Bank's executive officers as compared with other private financial services companies.

The FHLBank's member institutions receive extensive information regarding the compensation philosophy, practices and compensation outcomes at their FHLBank through the information provided by the FHLBanks in the Compensation Discussion and Analysis sections of their annual Form 10-K filed with the Securities and Exchange Commission. This includes information on the institutions that the Bank uses as competitor institutions for purposes of determining whether executive compensation at the Bank is reasonable and comparable with compensation offered to individuals with similar responsibilities at competitor institutions.

In the preamble to the Proposal, the FHFA has specifically identified the Federal Reserve Banks and the Farm Credit Banks as examples of what it considers to be appropriate comparators to assess the reasonableness and comparability of executive compensation provided by each of the FHLBanks, and has specified that comparable means

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compensation that is “at or below the median” compensation for a given position at such institutions. In our view, the selection of appropriate comparator institutions and the establishment of benchmark pay levels should be left to the discretion of the board of directors and the compensation committees of the individual FHLBanks. The Proposal appears to preempt these decisions and to remove the authority and responsibility of the compensation committees and boards of directors of the FHLBanks to establish appropriate compensation arrangements for executives at the FHLBanks.

The Proposal undermines the interests of member institutions by arbitrarily limiting the flexibility of any individual FHLBank to design compensation packages necessary to allow it to execute its particular strategic plan in its unique market. Moreover, by displacing the business judgment of the 12 individual FHLBanks’ boards of directors and compensation committees, the Proposal ignores the statutory prohibition contained in HERA, codified at 12 U.S.C. § 4518(d), which expressly prohibits the FHFA from prescribing or setting a specific level or range of compensation for executives at the FHLBanks.

We urge that the FHFA revise the approach taken in the Proposal when it adopts a final rule so that the FHFA neither establishes specific comparator institutions nor establishes a presumptive compensation cap. We believe that the FHFA should limit its role to reviewing the executive compensation determinations of the individual FHLBanks to ensure that FHLBank executive compensation is comparable with that at other similar businesses (including other publicly held financial institutions or major financial services companies) involving similar duties and responsibilities. This is the approach that the Office of Federal Housing Enterprise Oversight took in its executive compensation regulations, which are codified at 12 C.F.R. part 1710, and which we believe that the FHFA should take in its final rule on executive compensation.

In conclusion, we believe that the FHLBanks work well today, providing vital liquidity and affordable housing programs to our member institutions, in part because they have the right management talent required to make their operations work. This success should not be impaired by the placement of inappropriate compensation restrictions on the FHLBanks.

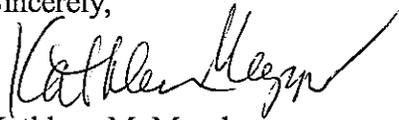
At a time of much and sometimes understandable scrutiny and concern around the subject of executive compensation for many regulated (public or private) companies and all SEC registered companies, we believe that the FHFA is going beyond the " best

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practices" that are consistently showing up in those proposals. Other proposals are much more principals-based and reporting-oriented as opposed to being formulaic and prescriptive; if something has to happen, that is more consistent with good governance. If others have rejected such a rigid determination, why is the FHLB system so different?

We appreciate your consideration of our comments and would welcome any questions or further dialogue on this proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "Kathleen Murphy", written in a cursive style.

Kathleen M. Murphy  
President and CEO  
Maryland Bankers Association