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**FOR RELEASE:
August 7, 2002
FHFB 02-34**

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KORSMO ANNOUNCES FHFB REORGANIZATION TO IMPROVE SUPERVISION OF FEDERAL HOME LOAN BANK SYSTEM

Chairman John T. Korsmo today announced the reorganization of the Federal Housing Finance Board to focus the agency's resources on its primary responsibility: regulating the Federal Home Loan Banks for safety and soundness.

Under the new structure, the Office of Policy, Research and Analysis will be merged into the Office of Supervision, under Supervision's current director, Stephen M. Cross. The Office of Managing Director and the Office of Communications will be eliminated.

"The Finance Board must first and foremost ensure that the Federal Home Loan Banks are operating in a safe and sound manner, fulfilling their statutory duties and meeting the expectations of the public," Korsmo said. "It has become abundantly clear that our Supervision staff must be significantly expanded to accomplish these goals."

"I am committed to making this improvement without placing any additional, unnecessary costs on the Federal Home Loan Banks that pay for the agency's budget," he continued. "To do so, it is necessary to re-allocate resources from general management and support positions to Supervision."

Twenty-one positions - including 11 currently vacant - will be eliminated, allowing the hiring of 20 additional examiners and financial specialists over the next two years.

The Federal Housing Finance Board, an independent agency within the executive branch, regulates the Federal Home Loan Bank System. A government-sponsored enterprise, the System consists of 12 privately owned wholesale banks that provide low-cost funding, known as advances, and other services to their member financial institutions. The Banks also carry out a statutory mission to promote affordable housing.

Korsmo noted that upon becoming Chairman in December, he found that relatively few Federal Housing Finance Board staff were devoted to actual supervision of the Banks. In all, just eight of more than 100 employees were bank examiners, compared to eight positions allocated to public relations work.

To strengthen supervision, Cross was hired as director of the Office of Supervision in April, with Christie Sciacca joining the Finance Board soon after as deputy director. Both brought extensive

financial regulatory experience from their work at the Federal Deposit Insurance Corporation,

Korsmo also initiated a management and budget review to maximize the agency's personnel, organizational structure, and management policies.

"We were clearly not devoting enough resources to the agency's core mission, supervising the Federal Home Loan Banks," he said. "This reorganization will address existing shortcomings, but also allow the Finance Board to initiate several programs to enhance supervision and improve oversight of the System's housing mission."

The Office of Supervision is responsible for ensuring that the Federal Home Loan Banks operate in a safe and sound manner and that they carry out their statutory affordable housing finance mission. These supervisory functions are performed through annual on-site examinations of each of the 12 Banks and the Office of Finance, as well as off-site monitoring.

Korsmo said the hiring of additional examiners will permit more thorough examinations of the Banks, as well as new, focused exams of specific activities - including affordable housing programs - across the entire Federal Home Loan Bank System. A new pilot project will also station examiners regionally outside of Washington, reducing the travel burden on employees.

The inclusion of policy and research personnel within the Office of Supervision will improve coordination among the professional staff and enhance the sophistication of the agency's Bank oversight, he added.

Employees losing their positions because of the reorganization will be eligible for the federal government severance program based on length of service and age. In addition, the Finance Board is providing two months of outplacement service and three or six months of salary based on federal employment status.

"We are working diligently to make this difficult process as easy as possible for everyone affected," Korsmo said.

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