

# Structure of the Board

## **Size**

The Board of Directors is comprised of 17 Directors. By statute, the Board cannot expand or reduce the number of Directors that serve on the Board. Only the Federal Housing Finance Agency (FHFA) has the authority to determine how many seats exist on the Board.

## **Board Composition – Independent and Member Directors**

The law governing the Bank System does not allow management of the Bank to serve on its Board of Directors. Consequently, all Directors of the Bank are outside Directors. Directors are classified as either being a Member Director, or an Independent Director. An independent directorship filled by an individual with more than four years experience representing consumer or community interests is a Public Interest Director.

## **Member Directors**

Ten of the 17 Directors are Member Directors elected by the member institutions. Member Directors are required to serve as either an officer or director of a member institution that is located in the Bank's district. The institution that the Director is associated with must meet its regulatory minimum capital requirements at all times. There are six elected directorships in Pennsylvania, three in Delaware and one in West Virginia.

## **Independent Directors**

Seven of the 17 Directors are Independent Directors elected by the member institutions. An Independent Director must be a citizen of the United States and a bona fide resident of the Bank's district. Independent Directors may not serve as an officer, employee or director of any member of the Bank, or any recipient of advances from the Bank.

## **Public Interest Directors**

Three of the seven Independent Directors are Public Interest Directors. Public Interest Directors must be representatives with more than a four-year history of representing consumer or community interests on banking services, credit needs, housing or financial consumer protections. No fewer than two of the Independent Directors must be qualified as Public Interest Directors.

## **Core Competencies of the Board and Personal Characteristics**

The Board has determined that its membership should possess specific core competencies in order to effectively fulfill their responsibilities and duties as Directors.

The Board as a whole should:

- Possess expertise in financial accounting and corporate finance;
- Possess a keen sense of business judgment;
- Have an understanding of best practices in the banking industry;
- Be able to perform their duties and make time during periods of crisis;
- Be able to motivate high-performing talent;
- Have the capacity to provide strategic insight and direction;
- Have in-depth, industry-specific knowledge of housing, community and economic development and banking;
- Be experienced in financial, operations, political and reputation risk management; and
- Possess the savvy to be influential with policymakers at the local, state and national levels.

The Board has determined that its membership should exhibit specific personal characteristics in order to effectively fulfill their responsibilities and duties as Directors.

All Directors should:

- Have high ethical standards and integrity in their personal and professional dealings;
- Be willing to act on and remain accountable for their Boardroom decisions;
- Be able to provide wise, thoughtful counsel on a wide range of issues;
- Have a general understanding of how to read a financial statement and understand financial ratios;
- Have a working familiarity of basic finance and accounting practices;
- Be politically aware;
- Possess a mature confidence;
- Approach their peers on the Board with self-assurance, responsibly and supportively;
- Value Board and team performance over individual performance; and
- Be inquisitive and comfortable asking questions of senior management.

## ***Selection of New Directors***

### **Involvement in Director Selection**

Except in the case of filling a vacancy, the Board of Directors has only some say in who serves as Directors. FHFA regulations prohibit the Board from supporting the nomination or election of any individual for a member directorship; however, Directors, Bank Officers, attorneys, agents or employees may do so provided that they do not purport to represent the views of the Bank or the Board. The Board is permitted to assess how well skills and experiences of incumbent Board members align with the needs of the Bank. The Board can then determine whether it could benefit from the addition of persons with particular skills or experience and if so, whether to provide members with that information in advance of nominations and voting. To this end, the Board has created a Board job description, individual director characteristics, and Board core competencies. These guidelines may be sent to voting institutions during the election process.

### **Vacancies**

Vacancies in directorships are filled by a vote of the Board of Directors of the Bank for the remainder of the unexpired term. Individuals filling vacancies must meet all requirements for eligibility discussed above.

## ***Retirement and Continuation as a Director***

### **Terms and Term Limits**

The term of office of each directorship commencing on or after January 1, 2009 shall be four years, except as adjusted pursuant to Section 7(d) of the Act (12 U.S.C 1427(d)) to achieve a staggered Board, and shall commence on January 1 of the calendar year so designated by the FHFA. In addition, if a Director has served three consecutive four-year terms, such Director shall not be eligible for re-election of a term which begins earlier than two years after the expiration of his or her previous three consecutive-four year terms of service.

## ***Loss of Director Eligibility***

Upon determination that a Director no longer satisfies the eligibility requirements set forth by statute or has failed to comply with regulatory reporting requirements, a directorship shall immediately become vacant. A Director shall become ineligible to remain in office if, during his or her term of office, the directorship to which he or she has been elected is eliminated or, with respect to a member directorship, is redesignated by the FHFA as representing members located in another state, in accordance with §1261.3(c)(2). The incumbent Director shall become ineligible after the close of business on December 31 of the year in which the directorship is redesignated or eliminated. Any directorship ceasing through elimination or redesignation shall not be deemed to be a full-term directorship.

## ***Board Compensation and Stock Ownership***

In 2017, the McLagan firm, which was retained by the Council of FHLBanks, released the 2017 Directors' Compensation Analysis using a peer group of institutions with asset sizes from \$10 billion to \$20 billion. The FHLBanks relied on this analysis in setting director compensation levels for calendar year 2018. The Board agreed at that time to transition over a period of two years to the new midpoints of the appropriate ranges.

The Policy guidelines on Director Compensation for 2018 are contained in the Bank's 2018 Directors' Compensation Policy, subject to non-objection/approval by the Federal Housing Finance Agency.



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