

TESTIMONY OF
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BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
OF THE
UNITED STATES SENATE

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Good afternoon Chairman Bennett, ranking Member Johnson and Members of the subcommittee. I am David Hemingway, Executive Vice President of Zions First National Bank, based in Salt Lake City, Utah, and a member of the Board of Directors of the Federal Home Loan Bank of Seattle.

I'd like to thank Chairman Bennett and the subcommittee for the opportunity to speak this morning on behalf of the Federal Home Loan Banks and address the critically important issue of corporate governance and responsibility within the Bank System.

As both a community banker for the better part of three decades, and an elected member of the board of directors of the Federal Home Loan Bank of Seattle, the issue – and practical application -- of board governance is of paramount importance to the financial institutions and communities we serve every day, and to me, personally.

Simply put, I'm accountable for the safety and soundness of the Seattle Bank.

While I'm not alone in that role -- I share it with 17 other directors and the management team of the company – I consider it my job to ensure that the financial management of this \$47 billion bank is effective over the long term, including proper stewardship of our shareholders' capital.

That's a staggering responsibility when you consider that the funding provided within the Seattle Bank district fuels housing finance, affordable housing initiatives and economic development in communities from Pago Pago to Walla Walla, Washington. Our nearly 400 member institutions rely on the Federal Home Loan Bank of Seattle to be their partner in helping their communities and local economies not only survive, but thrive.

Across the Federal Home Loan Bank System, we partner with nearly 8,000 community financial institutions in extending affordable credit to communities in every region of the U.S. The Federal Home Loan Banks hold nearly \$800 billion in assets, provide nearly a half trillion dollars in advances annually, issue about \$200 million in affordable housing grants yearly, and hold nearly \$100 billion in mortgage assets.

So when elected to serve as a director of the Federal Home Loan Bank of Seattle, I understood the critical importance of my role and what I needed to bring to the board – namely, my personal integrity and accountability, and my financial services and community banking expertise.

Over the last several years, we've witnessed corporate failures of historic proportions – financial disasters brought on by a combination of inept business practices, poor leadership and financial oversight, and fraudulent and unethical behavior.

We are all well aware that a quantum shift has occurred in how American corporations – large and small, privately held or publicly traded – will be run. Must be run.

The term used most these days is “corporate governance.” It's now in our business vernacular; it makes headlines in the Wall Street Journal; it comes out of the mouths of network anchors on a frequent basis.

But I believe there's another way to state it, and it goes something like this: Those who get to exercise the power must be accountable to those who are affected by it.

We share with our regulator, the Federal Housing Finance Board, the Treasury and Congress the sense of urgency that is so pervasive today regarding the need for increased accountability and responsibility. And we've worked hard over the last several years to significantly strengthen the leadership and oversight of our banks.

While we fully understand that corporate governance is a process; a discipline that can – and must be – constantly improved, I'm personally and professionally encouraged by the intensity of our efforts and the progress being made.

Over the course of the last year, the Seattle Bank board has created, adopted and publicly disclosed a set of Core Principles and Guidelines relating to board governance, realigned our board committee structure to more effectively oversee all facets of the bank's operations, upgraded our education and training program for directors, and established a web site that provides directors with faster access to a wider range of information critical to their board roles.

Our Core Principles and Guidelines provide us with a corporate governance roadmap, if you will, keeping us focused on:

- Assuring that policies, risk assessments, internal controls and decisions are effective in managing risk and are administered fairly.
- Operating in an independent and active manner.
- Setting the strategic direction of the bank and managing progress against goals.
- Determining if management is capable and if the business is being properly managed.
- Evaluating our own board effectiveness.

Our regulator, the Federal Housing Finance Board, is also diligent in overseeing and supporting sound corporate governance practices across the Bank System. The Finance Board just recently completed a horizontal review designed to assist the agency in directing and developing its supervisory and regulatory initiatives. The comprehensive review provided all 12 banks with a valuable resource for identifying practices that contribute to

effective governance programs. The Finance Board interviewed management and board members, and reviewed a wide range of bank documents with respect to board policies, practices and decisions.

I offer these comments to underscore the ongoing value of having boards and bank management teams focused on enhancing corporate governance standards, and a regulator performing its supervisory duty in a way that provides additional information and resources that further enhance the safety and soundness of the Bank System.

As we all know, it's one thing to say your house is in order and quite another to prove it. As a director – and a member and owner of the Seattle Bank -- it's my job to prove it.

Does your board audit committee provide effective oversight of the internal and external audit functions? Is the audit function independent, reporting only to the board, and is it supported appropriately by directors? Does the board ensure that material risks are accurately and consistently assessed by management and reported to the board in compliance with regulation and prudent business practice? Are all directors working responsibly in carrying out their duties? Are board and management actively involved in strategic planning?

I'm pleased to say the Seattle Bank has "yes" answers to these questions posed by the Finance Board in its recent horizontal review. But that's today. Our job is to ensure that we have "yes" answers tomorrow, the next day, and the day after that. Which is a much tougher proposition. But that's our job.

We're fortunate within the Federal Home Loan Bank System when it comes to corporate governance and responsibility. We were never starting from scratch. We've had the advantage of enhancing practices and standards that have, for more than 70 years, protected the Bank System against even a single member credit loss.

But I would emphasize again that we are fully aware that a new era has dawned in American business – one that looks on corporate governance as an ongoing, rigorous discipline that demands, at all times, review and accountability.

As one of 216 directors of the Bank System cooperative, I wouldn't have it any other way.

Mr. Chairman, this concludes my written testimony. Thank you, again, for allowing me the opportunity to speak with you today. I would be happy to answer any questions you or other members of the subcommittee may have.