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Fact Sheet for the Ranking Minority Member, Subcommittee on Federal Services, Post Office, and Civil Service, Committee on Governmental Affairs, United States Senate

April 1987

FEDERAL PAY

Executive Salaries in Government-Related Banking Organizations

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United States
General Accounting Office
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General Government Division

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April 30, 1987

The Honorable Ted Stevens
Ranking Minority Member
Subcommittee on Federal Services,
Post Office, and Civil Service
Committee on Governmental Affairs
United States Senate

Dear Senator Stevens:

This fact sheet responds to your June 10, 1986, request for information regarding large salaries of individuals who carry out the government's work. As you know, government programs, as a general rule, are carried out by agencies that are funded by congressional appropriations. Policies and procedures for establishing salary amounts for employees in these agencies are contained in title 5 of the United States Code. Among the title 5 provisions is a requirement that the salary for heads of cabinet departments be established at Level I of the Executive Schedule (5 U.S.C. 5312). The salary for positions at Level I was $86,200 at the time of your request, but it was increased to $99,500, effective in February 1987. All other employees in the departments must be paid salary amounts below Executive Level I.

Some government organizations operate with nonappropriated funds provided by the users of their services. Certain of these organizations, such as the Pension Benefit Guaranty Corporation and the Federal Deposit Insurance Corporation, are subject to title 5 limitations on maximum salary amounts.[1] Other organizations, however, carry out

[1]See Executive Order 12154 of September 4, 1979, wherein the Executive Director of the Pension Benefit Guaranty Corporation is placed in Level V of the Executive Schedule and 5 U.S.C. 5314 which places the Chairman, Board of Directors of the Federal Deposit Insurance Corporation, in Level III of the Executive Schedule.

functions that are "quasi-governmental" in nature and are not subject to title 5. These include organizations such as the Federal Reserve Banks and the Federal Home Loan Mortgage Corporation.

OBJECTIVES, SCOPE, AND METHODOLOGY

You asked us to identify individuals who carry out federally related functions whose annual salaries are more than the Executive Level I rate. As agreed with your office, it was not practical to examine contractual arrangements because the specific data are not generally identified and readily available for retrieval. As directed, therefore, we limited our work to organizations in the banking community in order to (1) identify the number of employees who received salaries exceeding $86,200 during calendar year 1986 and (2) provide the basis for setting salaries at levels above this amount.

We contacted agencies and organizations in the banking community which carry out federal functions required by their charters or by delegated authority from a federal agency. We identified six organizations which are not subject to title 5 salary limitations and operate with nonappropriated funds. One organization consists of the 12 Federal Reserve Banks. These Banks operate under the direction of the Board of Governors of the Federal Reserve System, a federal agency subject to title 5. (See 5 U.S.C. 5313 and 5314.) The remaining five organizations, which operate under the direction of the Federal Home Loan Bank Board (FHLBB), also a federal agency subject to title 5, are:

- -- the Federal Home Loan Banks;
- -- the Office of Finance;
- -- the Federal Asset Disposition Association;
- -- the Office of Regulatory Policy, Oversight, and Supervision; and
- -- the Federal Home Loan Mortgage Corporation.

The appendix to this fact sheet provides a brief description of the six organizations.

In performing our work, we (1) reviewed federal laws, regulations, studies, and reports and (2) interviewed appropriate officials in the banking community and the Office of Personnel Management. Officials in the six banking organizations provided the specific salary data and their bases for setting the salary levels. The salary data represents base salary only.

INDIVIDUALS PAID IN EXCESS OF EXECUTIVE LEVEL I

Within the six banking organizations, we identified 171 employees who received salaries in 1986 exceeding $86,200. Their median salary was $103,958. The salaries ranged from $86,500 to $250,000, as shown in table 1.1.

Table 1.1: Selected Banking Organizations With Employee Salaries Exceeding Executive Level I in 1986

Organization	Number of employees above $86,200	Salary range	Median salary
Federal Reserve Banks	87	$86,500-$170,800	$97,500
Federal Home Loan Banks	49	$88,500-$210,000	$130,000
Office of Finance and the Office of Regulatory Policy, Oversight, and Supervision[a]	5	$100,000-$185,000	$115,000
Federal Home Loan Mortgage Corporation	16	$88,100-$170,000	$97,400
Federal Asset Disposition Association	14	$87,100-$250,000	$115,000
Total	171		

[a]The two offices are combined because of the small number of employees involved.

BASIS FOR SETTING SALARIES ABOVE THE FEDERAL PAY CAP

According to officials in these banking organizations, salaries are set at the amounts necessary to recruit and retain the types of employees they need. They also observed, as did we and other study groups,[2] that salaries for private sector executives are generally higher than federal executives' salaries. Therefore, the organizations set salaries in relation to private sector organizations which they consider to be their competition.

As a basis for setting specific salary amounts, officials of the six organizations said they hire consulting firms to survey salaries in other organizations of similar structure, or asset size, or which have employees with similar responsibilities. The type of data obtained through salary surveys varies, but the surveys usually provide (1) recommended salaries for specific positions, (2) a range within which each position's salary should be set, or (3) information on relative salary trends such as percentage increases in merit and cost of living adjustments.

To set the salary of the Chief Executive Officer (CEO) of the Federal Asset Disposition Association (FADA), for example, a FADA official told us that the FADA Board of Directors hired Korn/Ferry International, a national executive search firm, to survey salaries of comparable positions. Using the salary data, the FADA Board of Directors, with the approval of the FHLBB, set the CEO's salary at $250,000. As a basis for setting salaries for positions below the CEO, FADA hired Coopers and Lybrand, a private sector accounting firm, to conduct market studies of salary ranges for comparable positions within private sector companies.

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[2] High Quality Leadership - Our Government's Most Precious Asset, The Report of the Commission on Executive, Legislative and Judicial Salaries, December 15, 1986.

Study of Total Compensation in the Federal, State and Private Sectors, Report for the Committee on Post Office and Civil Service, House of Representatives, December 4, 1984.

Statement for the Record to the Commission on Executive, Legislative and Judicial Salaries (GAO/T-GGD-87-1).

In 1986, the Federal Reserve Banks hired A. S. Hansen, Inc., a consulting firm, to conduct a survey to collect salary trend data identifying recent salary adjustments for a broad spectrum of employees in the private sector. According to a Federal Reserve official, the Banks now look at trends rather than actual salary amounts for specific positions because the amounts that the surveys had identified in previous years for specific positions, were usually higher than the amounts the Banks think they should pay.

As arranged with your office, copies of this fact sheet are being sent to the Chairman of the Board of Governors, Federal Reserve System; Chairman of the Federal Home Loan Bank Board; and other interested parties upon request.

If you have any questions, please contact me at 275-6204.

Sincerely yours,

Rosslyn S. Kleeman

Rosslyn S. Kleeman
Senior Associate Director

BRIEF DESCRIPTION OF SELECTED BANKING ORGANIZATIONS

FEDERAL RESERVE BANKS

The Federal Reserve Act of 1913 (38 Stat. 251, 12 U.S.C. 221 et seq.) created 12 Federal Reserve Banks as the operating arms of the Federal Reserve System--the Nation's central bank. Along with 25 branch banks, the System also includes a Board of Governors in Washington, D.C., which is composed of seven members appointed by the President and confirmed by the Senate. The System had 23,066 employees as of December 31, 1986. Many of the services performed by the System for depository institutions and the Treasury are similar to services performed by banks and thrift institutions for business customers and individuals.

The Federal Reserve Banks are corporations owned by member banks but are required to operate in the public interest. They are not operated for profit, and each year they return to the Treasury all earnings exceeding expenses and statutory dividends paid. Each Bank has a nine-member board of directors which oversees its operations under the general supervision of the Board of Governors. The Board of Governors, headed by a chairman, determines general monetary, credit, and operating policies for the System. It has broad supervisory and regulatory authority over member banks and bank holding companies. The Board of Governors has delegated some of its supervisory responsibilities, including field examinations of state-chartered member banks and bank holding companies, to the Federal Reserve Banks. The Chairman of the Board of Governors' salary, which is subject to title 5 (5 U.S.C. 5313), was $75,100 in 1986, and the Board members' salaries were less (5 U.S.C. 5314).

FEDERAL HOME LOAN BANKS

The Federal Home Loan Bank Act of 1932 (47 Stat. 725, 12 U.S.C. 1421 et seq.) established the Federal Home Loan Bank Board (FHLBB) to encourage thrift and economical home ownership. The FHLBB supervises and regulates savings institutions and directs the Federal Home Loan Bank System, which is a system for thrift institutions similar to the Federal Reserve System for commercial banks.

Through 12 Federal Home Loan Banks, employing 5,453 people as of December 31, 1986, the system provides a permanent credit reserve for member institutions such as savings and loan associations and mutual savings banks. Although each Bank operates within a framework set up by the FHLBB, it is wholly owned by its member institutions. Each Bank has a board of directors, a majority of whom are elected by the members and the remainder appointed by the FHLBB. The FHLBB has delegated responsibility for the examination and supervision of insured member thrift institutions to the Federal Home Loan Bank presidents in their additional role as principal supervisory agents of the FHLBB. The Chairman of the FHLBB's salary, which is subject to title 5, (5 U.S.C. 5314), was $73,600 in 1986, and the Board members' salaries were less.

OFFICE OF FINANCE

The FHLBB established the Office of Finance to carry out, among others things, all negotiations relating to (1) the public or private offering and sale of consolidated Federal Home Loan Bank obligations and (2) the purchase and/or sale of any securities on behalf of the Federal Home Loan Banks. It issues consolidated debt for the Banks. For the Banks and the Federal Savings and Loan Insurance Corporation, it develops computer programs for investment portfolios, and provides support services. The Office's director is responsible to the FHLBB as well as to the 12 Federal Home Loan Bank presidents. In carrying out its tasks, it acts as liaison among the Banks, the Federal Savings and Loan Insurance Corporation, and the FHLBB. The Office, which employed 50 people as of December 31, 1986, submits its budget annually to the FHLBB for approval. Operating funds are provided by monthly assessments of the 12 Banks reflecting each Bank's pro rata share of the Office's expenses.

FEDERAL ASSET DISPOSITION ASSOCIATION

To deal with nonperforming assets, such as delinquent loans or loans in foreclosure, of financially troubled savings and loan companies, the Federal Asset Disposition Association (FADA) was formed by the FHLBB in 1985 as a federally chartered savings and loan association under Section 406(a) of the National Housing Act of 1934 (12 U.S.C 1729(a)). It is a wholly owned subsidiary of the Federal Savings and Loan Insurance Corporation and acts as its real estate consultant. It operates under the supervision of a 13-member board of directors appointed by the FHLBB. Its purpose is to manage and sell assets from failing and failed thrift institutions nationwide. As of December 31, 1986, it had 158 employees.

OFFICE OF REGULATORY POLICY, OVERSIGHT, AND SUPERVISION

As a follow-up to delegating field examination functions to the Federal Home Loan Banks, the FHLBB established the Office of Regulatory Policy, Oversight, and Supervision to oversee the examination and/or supervision functions at the Federal Home Loan

Banks and to assist the Banks and the FHLBB in the development of regulatory policy. It also identifies issues or trends of risk to the thrift system. The Office receives its funding from the Banks but reports to the FHLBB. As of December 31, 1986, it had 84 employees.

FEDERAL HOME LOAN MORTGAGE CORPORATION

The Federal Home Loan Mortgage Corporation is a publicly chartered corporation whose preferred stock is owned by savings institutions. Under the supervision of the FHLBB (whose members are also the Corporation's Board of Directors), its purpose is to strengthen and further develop the existing secondary markets in residential mortgages. It is authorized to buy and sell residential mortgages from lenders across the nation, including members of the Federal Home Loan Bank System. The Corporation packages those mortgages in the form of mortgage-related securities and sells those securities to investors around the world. As of December 31, 1986, it had 1,468 employees.

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