

Federal Housing Finance Agency  
Office of Inspector General



# **FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs**

Evaluation Report • EVL-2013-04 • April 30, 2013



# Synopsis

April 30, 2013

## FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs

### Why OIG Did This Report

The Affordable Housing Program (AHP) is the largest private source of grant funds for affordable housing in the United States. It is funded by the Federal Home Loan Bank System (FHLBank System), a government-sponsored enterprise (GSE) consisting of 12 Federal Home Loan Banks (FHLBanks), whose primary mission is to support housing finance.

As part of AHP, the FHLBanks are legally required to contribute at least 10% of their previous year's net income to subsidize low-income rental or owner-occupied housing. Since the inception of the program in 1990, the FHLBank System has awarded over \$4 billion in subsidies through AHP. In general, these subsidies supplement the total cost of housing projects, which are funded primarily by other government or private sector entities.

The Federal Housing Finance Agency (FHFA or Agency) oversees the FHLBanks. Such oversight should include ensuring that AHP dollars are spent on eligible housing projects that are completed on time and within budget. Therefore, the FHFA Office of Inspector General (OIG) initiated this evaluation to examine FHFA oversight of AHP.

### What OIG Found

FHFA conducts annual examinations and collects data regarding each FHLBank's AHP. At the project level, however, it generally relies on the FHLBanks, their member institutions, and various private and public entities to monitor housing projects supported by AHP. It also depends on other funders to carry out their respective oversight duties. Thus, the success of AHP projects is at risk to the extent that oversight by government entities or funding organizations is weak.

FHFA's oversight could be improved through implementation of a policy regarding site visits and dissemination to the FHLBanks of cross-cutting feedback or trend analyses. The FHLBanks' oversight of AHP projects primarily is paper-based. Although some FHLBanks visit projects during construction, others only visit projects that receive a certain level of funding or are placed on watch lists because of problems with the projects. However, site visits can detect obvious fraud or misrepresentations in applications and status reports, and may be a useful control.

Additionally, as the regulator, FHFA is well-positioned to provide cross-cutting feedback and analyses to FHLBanks to improve oversight of their programs, but it typically has not published such data. The FHLBanks work together to share best practices, but unbiased analyses from the Agency could better inform policy and administrative decisions regarding these programs.



# Synopsis

---

April 30, 2013

## What OIG Recommends

OIG recommends that FHFA: (1) develop a policy for FHLBank site visits of AHP projects that includes guidance on their frequency, scope, and administration; (2) conduct and report cross-cutting analyses of common issues and themes across the FHLBanks, using analytically rigorous methods; and (3) analyze staffing levels needed to perform additional cross-cutting analyses and oversee housing project site visits by FHLBanks, and take appropriate actions to meet those staffing targets.

# TABLE OF CONTENTS .....

TABLE OF CONTENTS.....	4
ABBREVIATIONS .....	5
PREFACE .....	6
CONTEXT .....	7
Background of the FHLBank System.....	7
Background of the Affordable Housing Program.....	7
Competitive Application Program .....	8
Homeownership Set-Aside Program .....	11
Oversight.....	12
Member Institutions.....	13
FHLBanks.....	14
FHFA .....	19
FINDINGS.....	25
1. Site visits of AHP projects are needed to supplement paper-based reviews .....	25
2. FHFA is well positioned to provide cross-cutting feedback and analyses to FHLBanks to improve oversight of their affordable housing programs.....	26
CONCLUSION.....	29
RECOMMENDATIONS .....	29
SCOPE AND METHODOLOGY .....	30
APPENDIX A.....	31
FHFA’s Comments on Findings and Recommendation.....	31
ADDITIONAL INFORMATION AND COPIES .....	33

## ABBREVIATIONS .....

AHP	Affordable Housing Program
CICA	Community Investment Cash Advance
CIO	Community Investment Officer
CIP	Community Investment Program
FHFA or Agency	Federal Housing Finance Agency
FHFB	Federal Housing Finance Board
FHLBank	Federal Home Loan Bank
FHLBank Act	Federal Home Loan Bank Act of 1932
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
GSE	Government-Sponsored Enterprise
HERA	Housing and Economic Recovery Act of 2008
HUD	Department of Housing and Urban Development
OIG	Federal Housing Finance Agency Office of Inspector General

## PREFACE.....

OIG was established by the Housing and Economic Recovery Act of 2008 (HERA), which amended the Inspector General Act of 1978. OIG is authorized to conduct audits, investigations, and other studies of the programs and operations of FHFA; to recommend policies that promote economy and efficiency in the administration of such programs and operations; and to prevent and detect fraud and abuse in them.

HERA also established FHFA as the federal safety and soundness and mission regulator of the FHLBank System. The FHLBank System promotes affordable housing and community investment through programs including AHP. This report evaluates FHFA's oversight of the FHLBanks' administration and management of AHP.

This report was prepared by Angela Choy, Director of Fraud Prevention and Program Management; David M. Frost, Assistant Inspector General for Evaluations; and Adrienne Freeman, Program Analyst. OIG appreciates the assistance of FHFA and FHLBank staff in completing this report. It has been distributed to Congress, the Office of Management and Budget, and others and will be posted on OIG's website, [www.fhfoig.gov](http://www.fhfoig.gov).



George F. Grob  
Deputy Inspector General for Evaluations

## CONTEXT .....

### Background of the FHLBank System

The Federal Home Loan Bank Act of 1932 (FHLBank Act) created the FHLBank System to reinvigorate a housing market devastated by the Great Depression. The FHLBank System facilitates homeownership by increasing liquidity in the housing market. It is comprised of 12 regional FHLBanks that are owned by their more than 8,000 member financial institutions.

The FHLBanks increase liquidity in the housing market primarily by making secured loans, called advances, to member institutions such as commercial banks, credit unions, and insurance companies. Member institutions, in turn, can use the money to originate mortgages and fund economic development projects at the local level.

### Background of the Affordable Housing Program

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) required each FHLBank to establish its own program under AHP.<sup>1</sup> Each FHLBank awards subsidies in the form of grants or reduced interest rates on advances.<sup>2</sup> By law, AHP subsidies must be used to finance: (1) homeownership by households with low or moderate incomes (at or below 80% of area median income); or (2) the purchase, construction, or rehabilitation of rental housing in which at least 20% of the units will be occupied by households with very low incomes (at or below 50% of area median income).<sup>3</sup> Further, each FHLBank must contribute at least 10% of its previous year's net income to AHP, with a combined minimum contribution of \$100 million from all of the FHLBanks. The FHLBanks make these subsidies available through two programs: the competitive application program and the homeownership set-aside program (see Figure 1).<sup>4</sup> Since the

---

<sup>1</sup> AHP is one of three FHLBank community investment programs. FIRREA also requires each FHLBank to establish a Community Investment Program (CIP) to provide funding to member institutions for community-oriented mortgage lending. CIP provides funding in the form of advances to member institutions with a discounted interest rate for the purchase, construction, rehabilitation, or refinancing of affordable owner-occupied and rental housing for families. CIP also provides financing for commercial and economic development activities that benefit low and moderate income families or activities that are located in low and moderate income neighborhoods, such as roads, bridges, and retail stores. In addition, the FHLBanks may offer Community Investment Cash Advance (CICA) programs, which provide advances and grants for FHLBank member institutions to finance projects that are targeted to certain economic development activities, including social services projects and public facilities.

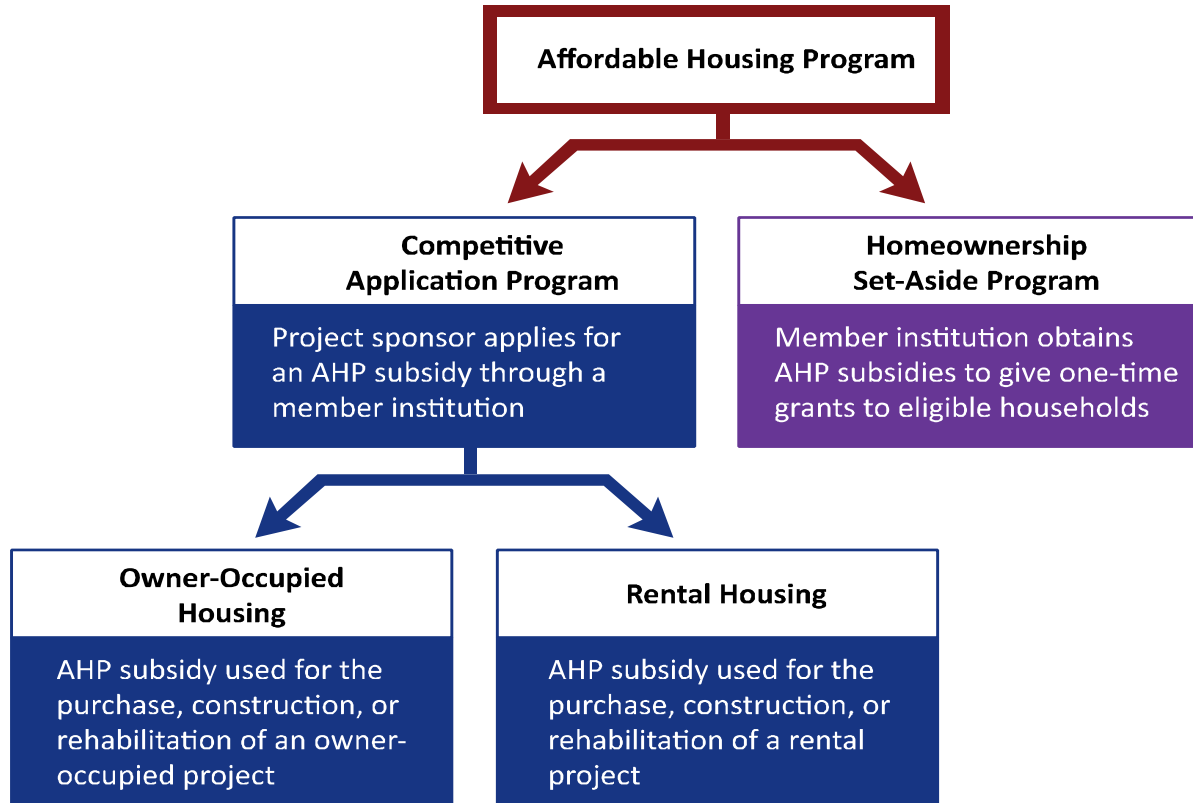
<sup>2</sup> 12 U.S.C. § 1430(i)(1).

<sup>3</sup> 12 U.S.C. § 1430(j)(2).

<sup>4</sup> 12 C.F.R. § 1291.2(a)-(b).

inception of AHP, the FHLBanks have helped fund the development of more than 783,000 housing units, including over 477,000 units for very low income residents.<sup>5</sup>

**FIGURE 1. AHP COMPETITIVE APPLICATION AND HOMEOWNERSHIP SET-ASIDE PROGRAMS**



### ***Competitive Application Program***

The FHLBanks award most AHP funds through their competitive application programs, which weight scoring criteria according to specialized need—such as housing for elderly people—and other community priorities. Project sponsors (e.g., local housing organizations, nonprofit corporations, and for-profit developers) partner with member institutions to develop projects and apply for AHP funding.<sup>6</sup> Member institutions submit applications for

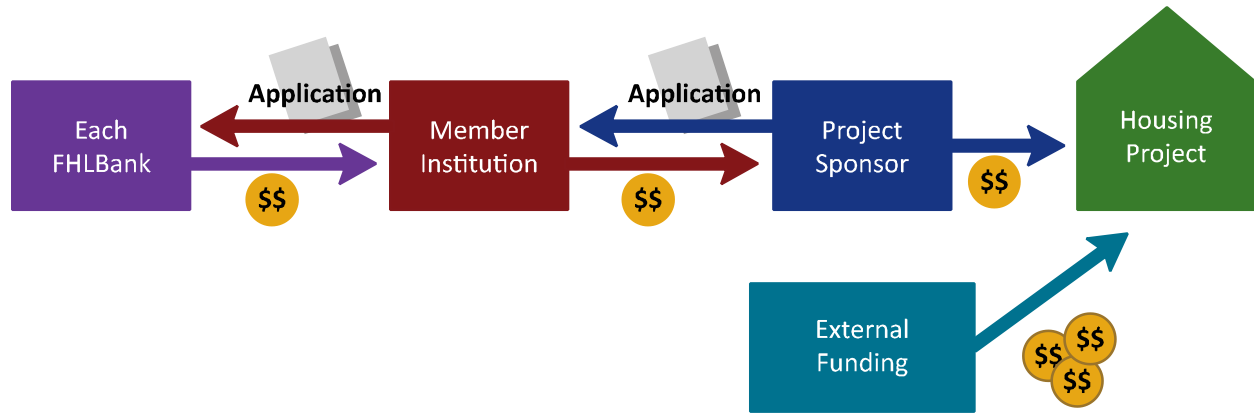
<sup>5</sup> FHFA, *Federal Home Loan Bank System Affordable Housing Program (AHP) Competitive Application and Homeownership Set-Aside Program Data* (June 30, 2012) (online at [www.fhfa.gov/webfiles/24481/2012%20AHP%20and%20CICA%20Tables%20for%20Web%20Site%20as%20of%2009-13-120.pdf](http://www.fhfa.gov/webfiles/24481/2012%20AHP%20and%20CICA%20Tables%20for%20Web%20Site%20as%20of%2009-13-120.pdf)) (accessed on January 16, 2013).

<sup>6</sup> Ordinarily, the member institution will have an ongoing relationship with the project sponsor for which it is submitting the application. AHP regulations define a sponsor as “a not-for-profit or for-profit organization or public entity that:



AHP funding on behalf of one or more sponsors of eligible housing projects. Figure 2 illustrates the application and funding process.

**FIGURE 2. APPLICATION AND FUNDING PROCESS**



From the inception of AHP in 1990 until June 30, 2012, the FHLBank System awarded over \$4.6 billion in AHP funding under the competitive application programs. This funding assisted over 17,400 projects.<sup>7</sup> In 2011, the FHLBanks awarded a total of more than \$226 million in competitive application funds. Figure 3 shows the \$226 million in 2011 AHP awards by region.

Rather than being the sole source of funding for projects, AHP supplements other funding sources. Generally, AHP subsidies account for 5%–10% of total development costs.<sup>8</sup> Figure 4 shows the number of projects awarded AHP funding in 2011 by region.

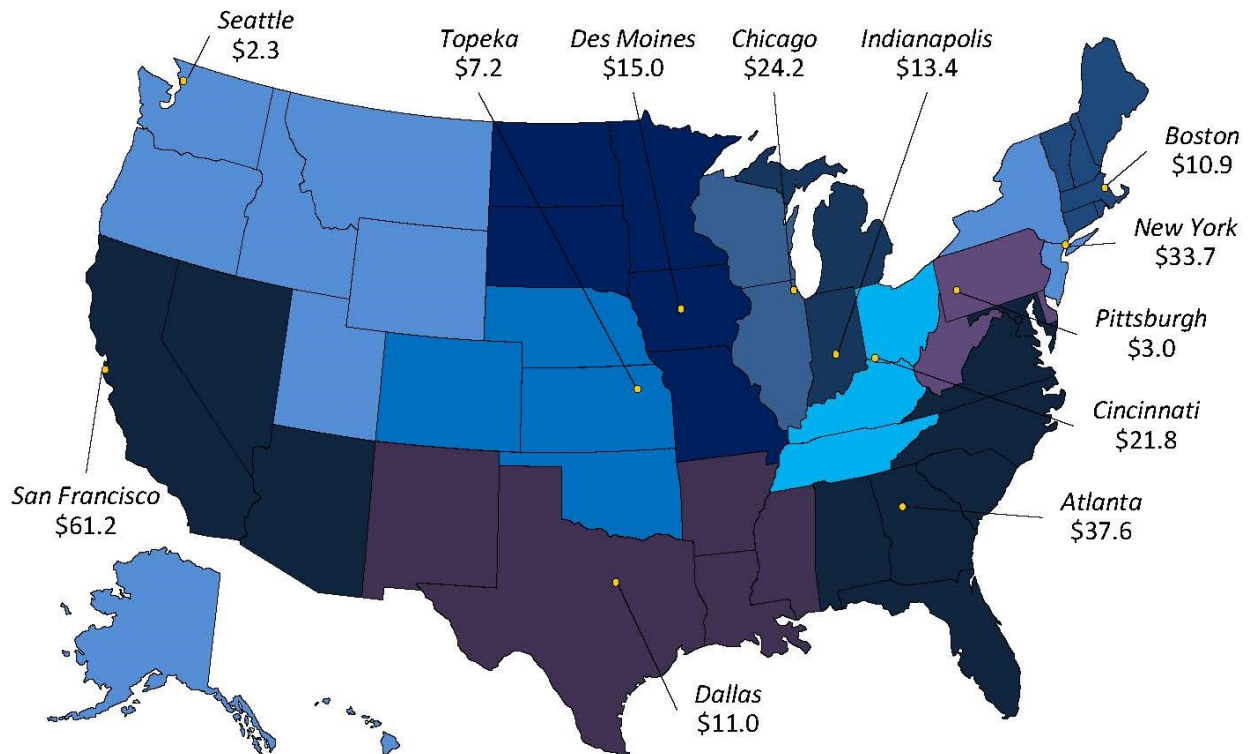
- 
- (1) Has an ownership interest (including any partnership interest), as defined by the Bank in its AHP Implementation Plan, in a rental project;
  - (2) Is integrally involved, as defined by the Bank in its AHP Implementation Plan, in an owner-occupied project, such as by exercising control over the planning, development, or management of the project, or by qualifying borrowers and providing or arranging financing for the owners of the units;
  - (3) Operates a loan pool; or
  - (4) Is a revolving loan fund.”

12 C.F.R. § 1291.1.

<sup>7</sup> AHP regulations define an AHP project as “a single-family or multifamily housing project for owner-occupied or rental housing that has been awarded or has received AHP subsidy under the competitive application program.” 12 C.F.R. § 1291.1.

<sup>8</sup> For example, AHP can be a source of subsidies for projects receiving low income housing tax credits or funding under the HOME Investment Partnerships Program of the U.S. Department of Housing and Urban Development (HUD). More than \$22.5 billion was disbursed under HOME from fiscal years 1992 to 2008. The low income housing tax credit program gives state and local housing finance agencies the equivalent of

**FIGURE 3. AMOUNT OF COMPETITIVE APPLICATION FUNDS AWARDED IN 2011 (in millions)**



**FIGURE 4. NO. OF PROJECTS AWARDED UNDER THE 2011 COMPETITIVE APPLICATION PROGRAM**

Atlanta	56	Cincinnati	54	Indianapolis	24	San Francisco	104
Boston	32	Dallas	53	New York	57	Seattle	9
Chicago	79	Des Moines	45	Pittsburgh	14	Topeka	31

A project must meet specific regulatory requirements<sup>9</sup> and be evaluated in light of nine scoring criteria<sup>10</sup> in order to be eligible for AHP funding. Although AHP regulations require

nearly \$8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower income households. HUD, *Low-Income Housing Tax Credits* (online at <http://www.huduser.org/portal/datasets/lihtc.html>) (accessed on December 19, 2012). Other sources of federal funding for AHP projects include: HUD's Community Development Block Grant program and U.S. Department of Agriculture's Section 515 program. On rare occasions, AHP may be the sole source of funding for a project. For example, an FHLBank may be the sole funder of a small owner-occupied renovation project.

<sup>9</sup> The specific requirements are:

- (1) AHP funding must be used for owner-occupied or rental affordable housing;
- (2) AHP projects must be financially feasible and must need the AHP subsidy to be feasible;

the FHLBanks to score applications for subsidies based on these criteria, they allow each FHLBank to determine how the criteria are weighted. For example, if an FHLBank identifies a need in a particular district for affordable housing for the elderly, it may allocate more points to AHP applications committed to developing homes or rental units for use by the elderly. Additionally, several FHLBanks also stated that they award extra points to projects already underway or projects with other funding in place to minimize the likelihood of problems. Each FHLBank's community investment department reviews the submitted applications for feasibility and scoring, and its Board of Directors approves the award recipients.

For rental projects, a project's sponsor must have an ownership interest in the project (including any leasehold, partnership, or controlling interest). For homeowner-occupied projects, the sponsor must be involved in planning, developing, or managing the project.

### ***Homeownership Set-Aside Program***

The FHLBanks also award AHP funds through their Homeownership Set-aside Programs, which were authorized by the Federal Housing Finance Board (FHFB), the regulator of the FHLBank System in 1995. For its own Homeownership Set-aside Program, each FHLBank may set aside up to \$4.5 million or 35% of its AHP contribution (whichever is greater) each

- 
- (3) The project must begin to use AHP funds within 12 months;
  - (4) The project must not use the subsidy for prepayment, cancellation, or processing fees;
  - (5) The AHP subsidy must be used for eligible costs;
  - (6) The affordable housing units financed with the subsidy must be subject to a retention agreement of 5 years for owner-occupied units and 15 years for rental units;
  - (7) AHP project sponsors and developers must meet AHP program qualifications; and
  - (8) The project must comply with applicable fair housing laws and regulations.

*See* 12 C.F.R. § 1291.5(c).

<sup>10</sup> The nine scoring criteria are:

- (1) Use of donated or conveyed government-owned or other properties;
- (2) Sponsorship by a not-for-profit organization or government entity;
- (3) Income targeting;
- (4) Housing for homeless households;
- (5) Promotion of empowerment;
- (6) First District Priority (one or more of the following): (a) special needs; (b) community development; (c) first-time homebuyers; (d) member financial participation; (e) disaster areas; (f) rural; (g) urban; (h) economic diversity; (i) fair housing remedy; (j) community involvement; (k) lender consortia; (l) in-district projects;
- (7) Second District Priority (a housing need identified by the FHLBank);
- (8) AHP subsidy per unit; and
- (9) Community stability.

*See* 12 C.F.R. § 1291.5(d).

year. Member lenders obtain AHP homeownership set-aside funds from their FHLBank and then use them to give grants directly to eligible households. The FHLBanks must make at least one-third of the allocations available to assist first-time homebuyers. Set-aside funds may be used for down payment assistance, closing cost assistance, or counseling costs in connection with the purchase or rehabilitation of owner-occupied units. The maximum grant amount may not exceed \$15,000 per household. The FHLBanks have awarded over \$568 million through their set-aside programs since 1995.

## Oversight

FHFA is responsible for ensuring that the FHLBank System fulfills its affordable housing objectives. However, the Agency's oversight of AHP involves multiple parties, including stakeholders external to the program. In addition to the FHLBanks, their member institutions, and the sponsors of projects funded through AHP, many stakeholders are engaged in financing, construction, rehabilitation, development, or oversight of AHP projects. These include other funders, other government agencies, contractors, and nonprofit and for-profit entities.

FHFA and the FHLBanks rely on these multiple third parties to carry out their respective oversight functions. FHFA focuses on the activities of the FHLBanks. The FHLBanks and member institutions monitor projects to ensure they are constructed or rehabilitated in a timely manner, AHP funds are spent as intended, and projects meet eligibility criteria. And, various third parties, such as state and local government agencies, oversee other aspects of project development, such as compliance with building codes.<sup>11</sup>

FHFA, the FHLBanks, member institutions, and other funding organizations use a variety of methods to oversee AHP. Figure 5 lists select oversight activities of these entities.

---

<sup>11</sup> For example, the mission of the New York State Housing Finance Agency is “to create and preserve high quality affordable multifamily rental housing...” New York State Housing Finance Agency, *Mission* (online at [www.nyshcr.org/Agencies/HFA/](http://www.nyshcr.org/Agencies/HFA/)) (accessed on March 21, 2013). The mission of the Maine State Housing Authority “is to assist Maine people to obtain and maintain decent, safe, affordable housing and services...” Maine State Housing Authority, *About MaineHousing* (online at [www.mainehousing.org/ABOUT](http://www.mainehousing.org/ABOUT)) (accessed on March 21, 2013). Similarly, monitoring compliance of HUD's HOME-funded construction projects includes a review to ensure that inspection procedures are in place so that all properties are free of health and safety defects before the properties are occupied. See 24 C.F.R. § 92.251.

**FIGURE 5. OVERSIGHT OF AHP**

Responsible Entity	Oversight Activities
<b>Member Institutions</b>	<ul style="list-style-type: none"> <li>● Review and submission to the FHLBank of sponsor applications</li> <li>● Review of financial and other information at each subsidy disbursement</li> <li>● Review of progress reports submitted to the FHLBanks</li> <li>● Submission of information for reviews by the FHLBanks after project completion</li> <li>● Submission of certifications and maintenance of required documentation under the Homeownership Set-aside Program</li> <li>● Recapture of funds from sponsors on behalf of the FHLBanks</li> </ul>
<b>FHLBanks</b>	<ul style="list-style-type: none"> <li>● Review of sponsor applications</li> <li>● Long-term monitoring of completed projects to ensure compliance with AHP requirements (such as 15-year affordable-housing status for rental projects)</li> <li>● Paper-based review of certifications and progress reports from sponsors and member institutions</li> <li>● Paper-based review of certifications from member institutions regarding use of homeownership set-aside funds</li> <li>● Site visits of some projects</li> <li>● Internal audits</li> <li>● Creation of watch lists of problem projects</li> <li>● Recapture of AHP funds</li> <li>● Withdrawal of AHP grant or de-obligation of funds awarded</li> <li>● Reporting fraud to FHFA</li> <li>● Suspension and debarment of member banks or project sponsors or owners from participation in AHP</li> </ul>
<b>FHFA</b>	<ul style="list-style-type: none"> <li>● Annual examinations</li> <li>● Data collection for AHP database</li> <li>● Occasional site visits to AHP funded projects</li> <li>● Enforcement, such as requiring an FHLBank to replenish AHP funds</li> </ul>
<b>Other Major Funding Sources</b>	<ul style="list-style-type: none"> <li>● State and local government oversight of quality and safety of housing projects</li> <li>● Eligibility monitoring by state or local housing authorities for AHP projects receiving low income housing tax credits</li> </ul>

***Member Institutions***

Once an FHLBank approves an application for funding, the member institution and project sponsor or owner must sign an agreement that details the program terms and establishes each party’s duties and obligations with respect to AHP. The AHP regulations also require the FHLBank to have in place an agreement with the member institution regarding the use of AHP subsidies and the member’s obligations in the program.

Responsibilities of the member institution include:

- Reviewing funding disbursement requests by sponsors—the member institution can reject a funding request if it determines that the sponsor has not provided adequate documentation;
- Submitting to the FHLBank semiannual progress reports;
- Submitting information for review once a project is completed; and
- Submitting certifications and maintaining required documentation under the Homeownership Set-aside Program.

An FHLBank can hold a member institution accountable for problems with an AHP project if it determines that the member institution did not adequately oversee the project. In the event of a problem, the FHLBank can, among other things, require that the member institution repay to the FHLBank the full amount that had been awarded to the sponsor.

### ***FHLBanks***

FHLBanks monitor AHP projects from the moment member institutions file applications through the number of years their projects are required to be maintained as affordable housing. AHP regulations require the FHLBanks to establish policies and procedures for monitoring projects before and after their completion.<sup>12</sup> The monitoring requirement is meant to ensure that AHP subsidies are used for eligible purposes and in accordance with AHP regulations. The FHLBanks also monitor the projects to ensure satisfactory progress toward completion and occupancy by eligible households. However, the AHP regulations do not require the FHLBanks to perform on-site reviews, and as a result their practices with respect to this important monitoring tool vary.

**Monitoring During Application and Funding.** AHP regulations require each FHLBank to have in place an AHP Implementation Plan, which guides the operation of each FHLBank's AHP and reflects its priorities and objectives. Regulations set forth the elements that are required in the Implementation Plan, including how AHP funds will be awarded, disbursed, monitored, and repaid. FHFA examiners review these plans during annual examinations of each FHLBank's affordable housing program to ensure that they are consistent with regulatory requirements and responsive to community needs. Specifically, the examiners assess whether each plan adequately describes the requirements of AHP and the FHLBank's expectations for its program.

The FHLBanks' community investment staff review AHP applications to ensure that they are complete and accurate. After an application is approved for an AHP award, the

---

<sup>12</sup> 12 C.F.R. § 1291.7.

FHLBank reviews semiannual monitoring reports concerning the project. It also may review a new set of financial information to check for inconsistencies with information submitted during the application process. The FHLBank also receives new financial and other information at each disbursement. In addition, an FHLBank may require documentation of progress on the project or documentation that non-AHP funds have been committed to the project prior to disbursement of AHP funds.

Each FHLBank's board of directors and senior managers are responsible for ensuring that the FHLBank's affordable housing program has sufficient resources to operate in compliance with the AHP statute and regulations. Affordable housing programs are types of community investment programs, and the FHLBanks hire staff to administer and manage these programs. Each FHLBank has a community investment officer (CIO) who administers the FHLBank's community investment programs.

**Initial Monitoring.** The FHLBanks conduct initial monitoring to confirm that projects are making progress toward completion, consistent with the project proposal, and in compliance with AHP regulations. Once a project is physically complete and ready for occupancy, an FHLBank performs a review. During that review, the FHLBank analyzes required documentation and certifications to verify compliance.

The FHLBanks conduct initial monitoring primarily through remote, paper-based monitoring, including photo documentation of housing projects, with follow-up by email and telephone communications with member institutions or project sponsors. Some FHLBanks supplement that monitoring by visiting the project site. They may also rely on member institutions to conduct site visits.

For owner-occupied projects under both the competitive and set-aside programs, the member institutions must ensure that the units are subject to five-year retention agreements, which require notification of the FHLBank in the event that the properties are sold or refinanced. The FHLBank also must monitor to ensure that households receiving subsidies are eligible.

**Long-term Monitoring.** The AHP regulations require that FHLBanks conduct long-term monitoring of AHP rental projects. Rental projects must remain affordable for low income households and in compliance with AHP regulations for 15 years from the date of project completion. A project sponsor must submit annual long-term monitoring reports including annual certifications that its project continues to meet income eligibility and affordability commitments until the end of the project's retention period. During the retention period, projects are considered active. As of June 2012, 2,232 AHP projects were active.

The FHLBanks generally rely on documentation from member institutions and project sponsors or owners to demonstrate that the tenants meet the eligibility requirements.

However, they may rely on monitoring performed by other entities under certain circumstances. For example, the FHLBanks may rely on state housing finance agencies when projects receive low income housing tax credits.

AHP regulations require that an FHLBank's written monitoring policies must account for risk factors such as the amount of the AHP subsidy awarded; the size of the project; the sponsor's experience; and any monitoring that is provided by a federal, state, or local government entity. Like initial monitoring, long-term monitoring is largely paper-based.

Some FHLBanks supplement their remote monitoring with site visits of AHP projects. For example, the FHLBank of Boston conducts site visits of all projects.<sup>13</sup> According to a representative, the FHLBank of Boston staff examine the housing projects and meet with tenants and developers to ensure that the projects physically exist and that the services the sponsors committed to provide in their application are, in fact, being provided.

For rental projects, an FHLBank may use a risk-based written sampling plan to select the projects to be monitored.<sup>14</sup> For example, according to the FHLBank of Cincinnati's Monitoring Plan, the FHLBank periodically audits projects based on their risk. When an AHP project is approved, the FHLBank assigns the project a risk level, which it may adjust as needed. Minimal-risk projects are not subject to an audit, while low-risk projects are subject to an in-house audit every six years, moderate-risk projects to an in-house audit every four years, and high-risk projects to an on-site audit every two years. The FHLBank assigns risk levels based on several factors, including whether there is long-term governmental monitoring, the amount of AHP subsidy in the project, and the percentage of total project costs represented by the AHP subsidy. For projects subject to an audit, the FHLBank requests supporting documentation for a random sample of the project's newly occupied units, based on a sampling plan: 25% of the units if there are fewer than 60 units in the project; 20% if there are 61-100 units; 15% if there are 101-200 units; and 10% if there are more than 200 units.

**Tracking Problem Projects.** In the course of monitoring, the FHLBanks may identify problem projects. If so, they place them on watch lists and track them. Problem projects may be identified based on information provided by member institutions, sponsors, or third parties. The problems can range from minor issues, such as late or incomplete submissions of documentation, to serious concerns, such as repeated failure to take corrective actions required by the FHLBanks, projects in financial distress or at risk of foreclosure, and

---

<sup>13</sup> OIG recognizes that the FHLBank of Boston's district is relatively small, which may make site visits less cumbersome. However, OIG notes that the districts of several other FHLBanks are not substantially larger than that of the FHLBank of Boston.

<sup>14</sup> Similarly, the FHLBank may use a sampling plan to select set-aside awards to be monitored during initial monitoring.



potential fraud. If a project sponsor does not or cannot remedy a cited problem, the FHLBank may try to recapture the AHP funds directly or through the member institution.

For example, one FHLBank investigated allegations of the improper use of funds in 2008 for a project awarded an AHP grant in 2007. The FHLBank conducted an on-site file review and inspection and concluded that some of the funds were misused. However, after reviewing the project sponsor's financial statements in 2009, the FHLBank concluded that the possibility of recovering the funds would be small. In lieu of recovering the grant funds, the FHLBank permanently disbarred the sponsor from participating in AHP and cancelled another project of the sponsor. The latter project had been approved for funding but had not yet received AHP funds.

The FHLBanks have adopted varying approaches to tracking problems. Some maintain two or three watch lists based on the seriousness of the problems identified, while others assign risk levels to the projects placed on a single watch list. Each FHLBank determines which problem projects are placed on its watch list(s). The FHLBank then provides status reports on problem projects and corrective actions to its board of directors and makes the reports available to FHFA examiners, usually as part of document submissions incident to annual examinations.

Significant delays or other problems can occur before, during, or after developing an affordable housing project without any fault on the part of the sponsor or owner. For example, the project sponsor could experience financial distress, a major funder or investor may withdraw from the project, or the developer might have unanticipated capacity constraints. Nevertheless, an FHLBank may place a project that remains incomplete for four or more years after an AHP award approval on its watch list and seek recovery of the funds. For example, an FHLBank placed a project that was awarded AHP funds in 2004 on its watch list in August 2008. The project had been funded to develop four units but after four years, one unit remained unsold. The FHLBank requested the return of \$9,000 in AHP funds for that fourth unit. However, the sponsor stated that it did not have the funds and would continue to try to sell the property. Because it was only one unit, the FHLBank decided to stay with the project and monitor progress. The unit remained unsold as of March 2011, and the FHLBank decided to explore modification options so that the project would remain eligible for AHP.

**Enforcement Tools.** To ensure that AHP projects are completed as proposed and in a timely manner, the FHLBanks can use different tools to enforce the AHP agreements they sign with member institutions and project sponsors. An FHLBank typically works with the member institutions, sponsors, or project owners to address any problems that arise. However, an FHLBank can place projects on hold until problems with them are resolved. In addition, it can restrict a member or sponsor from receiving subsidy disbursements until the

entity resolves an identified compliance problem. Restricting disbursements reduces monetary loss and mitigates risk to the FHLBank.

If problems cannot be resolved, an FHLBank can recapture all of the AHP funds disbursed to the sponsor—if the sponsor or member is deemed at fault—or settle with the parties. According to data that the FHLBanks report to FHFA, about \$5 million a year has been recaptured or repaid since 2010 across the FHLBank System (see Figure 6).

The decision to recapture depends on the circumstances of the case. AHP regulations require an FHLBank to recover from the responsible party the amount of AHP subsidies not used in compliance with the terms of the approved application or AHP regulations if the misuse of subsidies is the result of actions or inactions of the member institution, project sponsor, or project owner. However, an FHLBank is not required to seek recapture if a member or project sponsor is able to address a problem within a reasonable timeframe or a member or sponsor is no longer in noncompliance due to a project modification.

**FIGURE 6. AHP FUNDS RECAPTURED BY OR REPAYED TO THE FHLBANKS, JANUARY 2010-DECEMBER 2012\***

FHLBank	2010	2011	2012
Atlanta	\$514,000	\$106,000	\$216,000
Boston	\$286,000	\$419,000	\$147,000
Chicago	\$72,000	\$205,000	\$167,000
Cincinnati	\$910,000	\$1,337,000	\$790,000
Dallas	\$32,000	\$51,000	\$17,000
Des Moines	\$721,000	\$362,000	\$307,000
Indianapolis	\$300,000	\$22,000	\$580,000
New York	\$49,000	\$147,000	\$137,000
Pittsburgh	\$660,000	\$61,000	\$123,000
San Francisco	\$579,000	\$3,001,000	\$1,786,000
Seattle	\$69,000	\$384,000	\$203,000
Topeka	\$251,000	\$538,000	\$755,000
<b>Total</b>	<b>\$4,443,000</b>	<b>\$6,635,000</b>	<b>\$5,227,000</b>

*\*Totals may not add due to rounding. In addition, funds recaptured in a given year may apply to projects that were awarded AHP grants in previous years.*

If after making reasonable efforts an FHLBank is unable to recapture all questioned funds, the FHLBank may settle a claim for the AHP subsidies against the member institution, project sponsor, or project owner for less than the full amount.<sup>15</sup> However, the Agency can order an FHLBank to reimburse its AHP fund if the FHLBank is required to recapture AHP subsidies from a member institution or project sponsor or owner but fails to do so.

<sup>15</sup> When a project ends up in foreclosure or bankruptcy, an FHLBank may not consider the project a total loss even if the sponsor or owner fails to meet its 5-year or 15-year retention period and the FHLBank is not able to recover any funds. FHFA noted that many projects are structured as independent, nonprofit corporations that are self-sustaining and not dependent on the project sponsor. Thus, a project sponsor going out of business, for example, would not necessarily translate into a loss for the project or the FHLBank’s affordable housing program.

In addition to funds recapture, if the member, sponsor, or project owner engages in improper conduct, including serious and repeated noncompliance with AHP requirements, an FHLBank may suspend or debar that person or entity from future AHP participation. Each FHLBank maintains a list of the individuals and entities that have been suspended or debarred, which FHFA examiners can request for review. FHFA also can order an FHLBank to suspend or debar individuals or entities from the program.

Further, if funds have not been drawn down by a sponsor of a problem project, an FHLBank may de-obligate or withdraw the funds so that they are no longer available to the sponsor. The FHLBanks can then use the de-obligated funds to support other AHP projects. Figure 7 shows the amounts de-obligated by each FHLBank from January 2010 through December 2012.

With respect to owner-occupied AHP housing, the properties must be retained as affordable housing for five years after closing. If a property is sold to another buyer whose income does not exceed 80% of the area median income, the homeowner is not required to repay the AHP subsidy. However, if the buyer's income exceeds 80%, then the seller/grantee must repay a prorated share of the AHP subsidy, which is reduced for each month that the seller/grantee owned the unit.<sup>16</sup> That share is limited to the amount of any net gain from the sale or refinancing that occurs during the retention period.

**FIGURE 7. AHP FUNDS DE-OBLIGATED BY THE FHLBANKS, JANUARY 2010-DECEMBER 2012\***

FHLBank	2010	2011	2012
Atlanta	\$24,412,000	\$15,702,000	\$10,521,000
Boston	\$1,701,000	\$1,308,000	\$2,523,000
Chicago	\$1,301,000	\$971,000	\$2,396,000
Cincinnati	\$6,139,000	\$4,112,000	\$8,135,000
Dallas	\$2,496,000	\$4,962,000	\$4,411,000
Des Moines	\$1,674,000	\$3,114,000	\$3,527,000
Indianapolis	\$2,782,000	\$1,465,000	\$1,635,000
New York	\$6,930,000	\$6,575,000	\$9,845,000
Pittsburgh	\$832,000	\$1,623,000	\$1,123,000
San Francisco	\$17,636,000	\$23,390,000	\$13,404,000
Seattle	\$3,062,000	\$432,000	\$1,194,000
Topeka	\$1,708,000	\$1,834,000	\$3,264,000
<b>Total</b>	<b>\$70,673,000</b>	<b>\$65,488,000</b>	<b>\$61,979,000</b>

\*Totals may not add due to rounding.

### **FHFA**

FHFA conducts various types of oversight, e.g., targeted annual examinations, data analysis, and horizontal reviews. The Agency's targeted annual examinations and routine data

<sup>16</sup> One-sixtieth of the AHP subsidy is forgiven and not subject to recovery for every month that the seller/grantee owned and occupied the dwelling in accordance with AHP requirements.

analysis identify issues that are reported to the subject FHLBanks, and FHFA's horizontal reviews—system-wide reviews that focuses on specific activities, functions, or programs—are more widely distributed. To date, FHFA has not conducted a horizontal review concerning AHP, but its targeted annual examinations and routine data analyses also reveal trends among the FHLBanks. However, this cross-cutting information is typically not disseminated among the FHLBanks.

**Targeted Annual Examinations.** FHFA oversees AHP primarily through targeted, annual examinations of the FHLBanks. FHFA's Division of Federal Home Loan Bank Regulation assesses the effectiveness of the FHLBanks' affordable housing programs, plans, and activities to ensure that they meet the requirements and goals set forth in the FHLBank Act and AHP regulations. Results of the AHP examinations are incorporated into the Agency's annual safety and soundness ratings for each FHLBank.<sup>17</sup>

Each year, the Division of Federal Home Loan Bank Regulation's AHP Branch develops an AHP examination work program, which governs the scope of its examinations for the following year. The work program lists the questions to be addressed and documents to be reviewed. Among other matters, AHP examiners consider issues and concerns arising during the previous year's examinations when developing a new work program.

OIG reviewed the AHP examination work programs from 2007 through 2011; they show that over the period FHFA refined its oversight methodology and procedures. For example, FHFA's 2010 and 2011 work programs provide more detailed guidance about issues and questions the examiners should consider and documents that they must review when they evaluate an FHLBank's affordable housing program.

When OIG initiated its review, FHFA recently had modified its 2011 AHP examination schedule to coincide with the safety and soundness examinations for each FHLBank. This change in schedule meant that the AHP examination team—comprised of 11 field examiners at the time—visited four FHLBanks each quarter instead of three. As a result of the change to the schedule, the AHP examination of the FHLBank of Des Moines was not incorporated into the 2011 Report of Examination for that FHLBank. FHFA informed the FHLBank of the results of that examination a few months later. Since then, FHFA has reorganized and returned to its original AHP examination schedule so that examiners visit fewer FHLBanks each quarter.

The AHP Branch is comprised of 14 employees. The examination team consists of nine field examiners who work in teams of three or four for each examination, two examination managers who participate in some examinations, and a lead examiner who transitioned to a

---

<sup>17</sup> The AHP examination team also conducts examinations of the two other FHLBank community development programs—CIP and CICA.

new role on the AHP Examination Team and now leads fewer examinations. Additionally, the Associate Director leads the team with support from an examination specialist.

The FHFA official overseeing AHP examinations stated that the 2012 examination work program required the examiners to examine more closely the FHLBanks' process for monitoring and managing projects to ensure that all problem projects were captured on the watch lists. In addition, the work program required examiners to determine whether all problem projects were brought to the attention of the boards of directors of the FHLBanks. Notifying the boards allows them to take appropriate action before projects are at risk of funds recapture or foreclosure.

When AHP examiners conduct annual examinations, they review documents, interview members of the FHLBanks' boards of directors and affordable housing advisory committees, evaluate policies and procedures, and test for compliance with applicable policies and procedures. For example, they may test some projects where initial monitoring was completed and evaluate whether the projects achieved their application commitments. The examiners also review the FHLBanks' watch lists and follow up on the actions taken with respect to problem projects. Additionally, the examiners may pull a sample of project files to assess the problems identified and determine how promptly and rigorously an FHLBank resolved them. They also may examine the FHLBanks' decisions not to pursue recapture and to settle claims against member institutions or project sponsors for less than the full amount that had been disbursed.

Between examinations, FHFA maintains communication with CIOs, obtains quarterly updates, and conducts additional site visits to the FHLBanks as needed, particularly those with significant AHP compliance issues. The purpose of the communication is to monitor the status of an FHLBank's response to examination findings. The examiners document the updates, which are stored in the Agency's files for each FHLBank. The frequency of communication between FHFA examiners and an FHLBank depends on the seriousness of the issues at that FHLBank.

OIG reviewed the 2008 through 2011 examination findings for each FHLBank's affordable housing program. FHFA examiners found various issues at multiple FHLBanks that required corrective action. The issues identified by FHFA examiners included:

- Deficiencies in application review, such as inadequate analysis and support for project costs and subsidy need and inconsistent eligibility determination processes;
- Delayed monitoring and quality control reviews;
- Reliance on antiquated management information systems;
- Lack of vigilance in identification and management of problem projects;

- Delayed recycling of funds into the AHP subsidy pool;
- Lack of audit trail of activities taken by staff in connection with approving applications, disbursing funds, and monitoring projects;
- Inaccurate and untimely data reporting to FHFA; and
- Approval of ineligible applications for subsidies in violation of AHP regulations.

OIG's review of the reports of subsequent examinations indicates that the FHLBanks have improved their affordable housing programs because of FHFA's earlier examination findings and suggestions. In general, the FHLBanks took corrective actions as directed by FHFA within the next two examination periods after FHFA examiners identified problems. FHFA examiners track the status of these corrective actions and follow up during each examination to determine whether previously reported issues have been resolved. However, according to FHFA, when there are competing budget needs for other FHLBank operations, it typically has not been a priority to address deficiencies in information systems in a timely fashion. For example, FHFB recommended in 2005 that the FHLBanks upgrade information systems for effective management and oversight of their affordable housing programs, including monitoring the status of funded projects and problems with members and sponsors.<sup>18</sup> Eight years later, this recommendation has not been implemented fully by all of the FHLBanks. Although the lack of upgraded information systems is of concern to the AHP examiners, such concern is unlikely to affect the FHLBanks' annual safety and soundness ratings because the FHLBanks' affordable housing programs are relatively small parts of their overall operations.

**Semiannual Data Reporting.** FHFA also monitors project status by requiring the FHLBanks to submit project-level data semiannually. The Agency's Office of Housing and Community Investment<sup>19</sup> maintains the AHP database, which includes 125 data elements that are used to produce information on each FHLBank and the FHLBank System as a whole. It also reviews the data submissions and conducts site visits at the FHLBanks to evaluate the integrity of the data they submit. FHFA uses the reports generated from this database to monitor program performance and support AHP examinations. For example, FHFA stated that the number of requests for project modifications and extensions along with the age of projects, number of units completed, and disbursement rates provide the Agency with insights on the number and types of projects that may face future completion challenges.

---

<sup>18</sup> Specifically, in 2005 FHFB stated in its review of AHP that the information system "should be able to alert program staff to potentially ineligible recipients, track problematic sponsors and member institutions over time, and provide aggregated statistics that would better enable the Bank to determine the effectiveness of the AHP."

<sup>19</sup> The Office of Housing and Community Investment is a subdivision of FHFA's Division of Federal Home Loan Bank Regulation.

FHFB developed the original AHP database in 1998. During FHFB's 2005 review,<sup>20</sup> it found serious flaws with the database, including that it was difficult to query and that it failed to collect important program information. FHFB redesigned the AHP database in August 2006. Since then, the Agency has continued to update the required data elements. For example, in version two of FHFA's data reporting manual, the Agency required the FHLBanks to report several new data elements, such as a project's "physical completion date"<sup>21</sup> and whether a household has completed a homeowner counseling program. The FHLBanks also report data such as the number of projects and amount of funds awarded, estimated and actual project costs, performance (e.g., number of housing units completed), project completion dates, and withdrawal dates.<sup>22</sup> FHFA uses the data to generate reports for FHFA, Congress, and the public.

FHFA staff told OIG that after FHFB launched the new database in 2006, some FHLBanks failed to report their data on time and that there were discrepancies in how the FHLBanks interpreted some of the data elements. Thus, FHFA started to conduct on-site data integrity reviews at the FHLBanks to improve communications and ensure that complete and accurate data are submitted to FHFA. FHFA officials stated that on-site reviews have resulted in more accurate reporting by the FHLBanks.

**Horizontal Reviews.** A horizontal review is another tool used to examine specific issues or aspects of a program across the 12 FHLBanks and then make recommendations to the FHLBanks to address identified deficiencies. It allows the FHLBanks to capitalize on FHFA's findings regarding common problems and effective practices.

In 2005, FHFB conducted a horizontal review to "highlight effective practices in Affordable Housing Program governance and operations and to identify areas for improvement that could help the Federal Home Loan Banks leverage more affordable housing from a given investment."<sup>23</sup> Although a senior FHFA official stated that the review did not consider the

---

<sup>20</sup> FHFB, *Report of the Horizontal Review of the Affordable Housing Programs of the Federal Home Loan Banks* (March 15, 2005) (online at [http://www.fhfa.gov/webfiles/2981/AHP\\_HR\\_Report\\_Master3-15-05\\_-\\_FINAL\[1\].pdf](http://www.fhfa.gov/webfiles/2981/AHP_HR_Report_Master3-15-05_-_FINAL[1].pdf)) (accessed on January 16, 2013).

<sup>21</sup> According to FHFA's data reporting manual, for rental projects, the physical completion date is the date on the certificate of occupancy. For non-rehabilitation owner-occupied projects, the date is the "closing date" of the last completed AHP assisted unit.

<sup>22</sup> Although each FHLBank documents the dollar amounts it withdraws, de-obligates, or recaptures from awarded projects, FHFA does not track the FHLBank decisions not to recapture funds with respect to withdrawn projects. For projects awarded after December 31, 2005, the Agency can determine the amount of project funding that an FHLBank could not recapture by calculating the difference between funds that were disbursed to projects that were subsequently withdrawn and funds that were recaptured.

<sup>23</sup> FHFB, *Report of the Horizontal Review of the Affordable Housing Programs of the Federal Home Loan Banks* (Mar. 15, 2005) (online at [http://www.fhfa.gov/webfiles/2981/AHP\\_HR\\_Report\\_Master3-15-05\\_-\\_FINAL\[1\].pdf](http://www.fhfa.gov/webfiles/2981/AHP_HR_Report_Master3-15-05_-_FINAL[1].pdf)) (accessed on January 16, 2013).

depth of the deficiencies, FHFA believes that the review yielded valuable findings and recommendations to improve AHP. For example, FHFB recommended that the FHLBanks update their management information systems and that boards of directors become more involved to ensure that each FHLBank's AHP activities get the resources and attention they need to maximize their effectiveness.

FHFA has not conducted a horizontal review of AHP since it became responsible for oversight of the FHLBanks in 2008.<sup>24</sup>

---

<sup>24</sup> Although FHFA reviewed how the FHLBanks identify and prioritize district needs in 2009 and characterized it as a horizontal review, the head of the AHP Examination Team informed OIG that there were flaws in the design and administration of that review. Thus, the official considers the 2005 review conducted by FHFB to be the last horizontal review. Another senior official also explained that the 2009 review was a test case for developing the current examination work programs that govern AHP examinations.



## FINDINGS .....

### 1. Site visits of AHP projects are needed to supplement paper-based reviews

Site visits are a component of grant management typically required by grant-giving federal agencies.<sup>25</sup> However, FHFA has not established and implemented uniform standards for site visits, and the 12 FHLBanks have varying practices regarding site visits of AHP projects.<sup>26</sup> Some FHLBanks conduct site visits while projects are being constructed to ensure that they are being completed. Others may visit only projects that receive a certain level of funding or that are on watch lists.

FHFA stated that the substantial remote monitoring by the FHLBanks and their reliance on contractual safeguards, such as retention agreements, helped ensure compliance with program requirements. Furthermore, FHFA, the FHLBanks, and their member institutions necessarily rely on local government officials to ensure that the housing projects they support meet building codes and other safety standards. They also depend on the other funding organizations to carry out their respective oversight responsibilities. However, these entities are not accountable to FHFA. Consequently, AHP projects are at risk of fraud, waste, abuse, or other problems in development and implementation to the extent that oversight by government entities or funding organizations is weak.

Site visits can help the FHLBanks and FHFA determine whether representations made on paper by member institutions, project sponsors, or third parties reflect actual implementation of the sponsor's AHP proposal. They can also help identify potential fraud. For example, representatives from one FHLBank stated that site visits helped it identify problem projects that might have otherwise been undetected. Thus, site visits can serve as a useful adjunct to current remote monitoring activities to ensure that sponsors make progress on their projects as reported, to ascertain whether projects provide the services as agreed to in the AHP application, and to detect obvious fraud or misrepresentations. As noted above, there are

---

<sup>25</sup> See, e.g., HUD, *In-depth Monitoring & On-site Reviews* (online at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/affordablehousing/training/web/heckup/monitoring/indepthmonitoring](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/training/web/heckup/monitoring/indepthmonitoring)) (accessed on December 19, 2012) (requiring on-site visits to monitor HOME Program grants); U.S. Department of Justice, *OJP Grant Process* (online at [http://www.ojp.usdoj.gov/funding/grant\\_process.htm](http://www.ojp.usdoj.gov/funding/grant_process.htm)) (accessed on December 19, 2012) (requiring on-site visits to monitor OJP grants); U.S. Department of Health and Human Services, *HHS Grant Process* (February 6, 2009) (online at <http://www.hhs.gov/asfr/ogapa/grantinformation/grantprocess.html>) (accessed on December 19, 2012) (requiring on-site visits to monitor HHS grants).

<sup>26</sup> The FHLBanks are not “grant-giving federal agencies,” but these criteria are instructive because—with respect to AHP—the FHLBanks serve in an analogous role. Specifically, they are government-sponsored enterprises that administer a housing program mandated by federal statute.

different approaches to conducting site visits. For example, sites can be chosen from projects that have been placed on watch lists. Other approaches include surprise visits of randomly selected projects or projects at risk because of their size, complexity, or sponsor.

In its response to a draft of this evaluation report, FHFA noted that OIG had not identified instances of mismanagement or fraud that site visits would necessarily address. However, OIG's objective was not to identify instances of fraud or misrepresentation, but rather to evaluate FHFA's oversight. As a result, OIG did not conduct a detailed review or testing of the thousands of AHP projects subject to the Agency's oversight. Rather, OIG identified areas for improvement—such as site visit guidance—to address the risk of fraud in the FHLBanks' programs and the inherent risk associated with FHFA's reliance on multiple third parties to carry out direct oversight of housing projects subsidized by AHP.

## **2. FHFA is well positioned to provide cross-cutting feedback and analyses to FHLBanks to improve oversight of their affordable housing programs**

Although FHFA synthesizes some cross-cutting information through available sources—such as targeted examinations and its AHP database—it does not have a systematic approach for sharing with the FHLBanks feedback about emerging trends and problems confronting them.

Through its targeted annual examinations, FHFA collects some data that allow for an across-the-board or system-wide assessment of the FHLBanks' affordable housing programs. When the AHP examination teams conduct their annual examinations, they review the same topics at each FHLBank. Because the same topics are examined by FHFA, common issues and concerns about AHP necessarily are identified.<sup>27</sup> Occasionally, FHFA shares this information with the FHLBanks through guidance or at FHLBank meetings, but it does not systematically disseminate it among the FHLBanks.

OIG's review of the 2008 through 2011 reports of examinations for all 12 FHLBanks found multiple common areas in the affordable housing programs in need of improvement, including timeliness of project monitoring (failure to conduct timely monitoring can delay identification and resolution of problem projects), antiquated management information systems, and data reporting errors. However, each FHLBank receives only its own examination reports, which are confidential (i.e., FHFA emphasized that its examination findings concerning particular FHLBanks are confidential).

---

<sup>27</sup> Although FHFA deems information about individual FHLBanks to be confidential, trend data—like other data that FHFA discloses in its annual reports to Congress—can be “sanitized” to remove identifiers and facilitate its release among the FHLBanks.

Additionally, in 2012, FHFA reorganized to facilitate communication and coordination between the AHP examiners and the policy staff overseeing the AHP database. Both functions are now within the Division of Federal Home Loan Bank Regulation. As mentioned earlier, the Division's Office of Housing and Community Investment separately collects and maintains data from the FHLBanks regarding AHP. Queries of this database could provide FHFA with performance indicators for AHP across the board. For example, the AHP database shows how many projects were withdrawn, how often funds were recaptured, and how many projects did not meet their proposed completion dates.

Moreover, cross-cutting analyses, such as horizontal reviews or other studies that look across a program or areas of interest, would supplement the Agency's efforts to identify effective practices and common issues affecting all FHLBanks. They also would inform their efforts to improve the administration and management of their affordable housing programs. Conducting and then sharing the results of these cross-cutting analyses with the FHLBanks would allow each of them to learn from the experiences of the others.

The FHLBanks are interested in learning from each other. For example, they have taken the initiative to work together to share best practices for advancing AHP. The CIOs of the 12 FHLBanks meet and communicate regularly to share information on issues that arise in their respective affordable housing programs. The FHLBanks also host webinars. One such webinar discussed the reasonable costs of construction.

Yet, such ad hoc coordination is not a substitute for formal FHFA feedback. Indeed, representatives from some FHLBanks stated that they would welcome more horizontal reviews by FHFA. Additionally, although the FHLBanks are willing to share practices that are successful, they may be less willing to discuss areas in which they are not doing as well. Only FHFA can perform a formal, unbiased review across the FHLBanks to identify not only the effective practices but also any poor practices or inadequate policies that need to be addressed. The FHLBanks can benefit from a thorough understanding of problems that their peers are confronting.

Senior FHFA officials acknowledged the usefulness of horizontal reviews, but stated that with limited resources and staffing, the Agency does not anticipate conducting horizontal reviews in the near future. However, horizontal reviews are only one type of cross-cutting analysis. Alternatively, using the experience, expertise, and work product of its cadre of examiners, access to files of completed examinations and the work papers underlying them, and an enriched data system, FHFA is well positioned to perform or facilitate analyses of common issues such as those discussed in the previous paragraphs. Furthermore, it could consolidate and analyze data more efficiently and rigorously than any one FHLBank. For example, FHFA can draw random samples of data from site visits or from management reports relating to targeted categories of construction, rehabilitation, or rental projects.

Conversely it can assemble descriptive statistics about purposively selected AHP projects of special interest. These analytics, combined with random or purposively selected sites or projects, can provide more scientifically reliable results than can be obtained from FHLBanks or their members working in isolation.

In its response to a draft of this evaluation report, FHFA agreed that cross-cutting analyses would enhance its supervision, but stated that OIG had not acknowledged the comparative analysis inherent in its supervision. We are encouraged that FHFA appreciates the importance of identifying emerging trends among the FHLBanks. However, it is not useful to identify trends and problems, if the information about them is not shared with the FHLBanks. The Agency needs to apprise them of problems that their peers are confronting so that they can take action to avoid similar problems.

## CONCLUSION.....

FHFA relies primarily on targeted annual examinations to oversee AHP. The unique nature of AHP—e.g., involvement of multiple stakeholders, lack of direct oversight of AHP projects, and the importance of achieving affordable housing objectives—warrants additional or enhanced oversight techniques. To that end, the Agency established an AHP database that it uses to monitor program performance, support examinations, and perform special analyses. However, there are additional opportunities for improvement. For example, systematic site visits of AHP projects by the FHLBanks and cross-cutting reviews of their programs could strengthen FHFA’s oversight of AHP.

OIG appreciates FHFA’s comments on the report, which is attached in its entirety at Appendix A. OIG’s analysis of FHFA’s comments on our findings is set forth at the end of each finding. The Agency agreed with our recommendations and set forth a plan for implementation by December 15, 2013.

## RECOMMENDATIONS.....

OIG recommends that FHFA:

1. Develop a policy for FHLBank site visits of AHP projects that includes guidance on their frequency, scope, and administration;
2. Conduct and report cross-cutting analyses of common issues and themes across the FHLBanks, using appropriate and analytically rigorous methods; and
3. Analyze staffing levels needed to perform additional cross-cutting analyses and oversee FHLBank site visits of AHP projects, and take appropriate actions to meet those staffing targets.

## SCOPE AND METHODOLOGY .....

To determine how FHFA identifies and documents AHP-related issues, concerns, and shortcomings and how the FHLBanks monitor and manage AHP projects, OIG reviewed:

- FHFA written materials, such as program policies and procedures, examination work programs, working documents, findings memoranda, and reports of examinations;
- AHP document and data submissions from the FHLBanks; and
- FHLBanks' project monitoring policies, internal audits of AHP, and watch lists.

To obtain information about the AHP examination process and FHFA's data collection efforts, OIG interviewed Agency officials, in particular FHFA managers and staff from the AHP Branch and the Office of Housing and Community Investment. Interviews with Agency officials also provided information on how FHFA monitors and oversees the administration and management of AHP.

OIG also interviewed representatives of each of the 12 FHLBanks, including CIOs, to discuss their oversight roles and responsibilities with respect to AHP, in particular their project monitoring processes and practices.

OIG did not independently test the reliability of FHFA's or the FHLBanks' reports and data. Nor did OIG verify the physical condition of projects or the quality of their construction or rehabilitation; this was beyond the scope of the evaluation.

This evaluation was conducted under the authority of the Inspector General Act and is in accordance with the *Quality Standards for Inspection and Evaluation* (January 2012), which was promulgated by the Council of the Inspectors General on Integrity and Efficiency. These standards require OIG to plan and perform an evaluation that obtains evidence sufficient to provide reasonable bases to support the findings and recommendations made herein. OIG believes that the findings and recommendations discussed in this report meet these standards.

The performance period for this evaluation was from September 2011 to October 2012.

# APPENDIX A .....

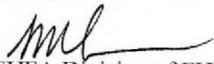
## FHFA's Comments on Findings and Recommendation



### Federal Housing Finance Agency

#### MEMORANDUM

**TO:** George Grob  
FHFA-OIG Deputy Inspector General for Evaluations

**FROM:** Stephen M. Cross   
Deputy Director, FHFA Division of FHLBank Regulation

**SUBJECT:** FHFA comments on the FHFA-OIG draft Evaluation Report "FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs"

**DATE:** February 27, 2013

We appreciate the opportunity to respond to the draft evaluation report, "FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs" (Report), which covers a time period from September 2011 to October 2012. This memorandum transmits the Federal Housing Finance Agency's (FHFA) management responses to the three recommendations in the Report. The Report's three recommendations offer opportunities for enhancements to program oversight, but they do not identify material deficiencies in FHFA's oversight of the Affordable Housing Program (AHP).

**Recommendation 1:** *Develop a policy for FHLBank site visits of AHP projects and provide guidance on their frequency, scope, and methods.*

**Management Response:** FHFA agrees with this recommendation, but we would note that the Federal Home Loan Bank's (FHLBank) monitoring of its Affordable Housing Program (AHP) is already subject to detailed regulatory requirements that ensure projects receiving AHP funds are monitored from the time they receive an AHP award to the end of their compliance period. That monitoring is intended to ensure that AHP subsidies are used for eligible purposes. Off-site monitoring and program reports are supported by an AHP database made up of over 125 data elements.

The Report does not identify instances of mismanagement or fraud in the AHP that were overlooked by current monitoring activities. As such, the Report does not demonstrate instances in which site visits would necessarily have enhanced program monitoring. In addition, we have concerns about the Report's reference to site visits "typically required by grant-giving federal agencies." We do not agree that the typical practices of "grant giving federal agencies" necessarily should apply to FHLBanks, which are private institutions, not federal agencies.

Those concerns notwithstanding, FHFA will supplement existing monitoring requirements with guidance specifically related to site monitoring. That guidance will address the FHLBanks'

monitoring plans to take into consideration project site visits to supplement existing methods of remote monitoring. The guidance will not mandate site visits for all projects supported by AHP funds, and it will take into account any project monitoring being carried out by other government entities; the costs and potential benefits of on-site visits compared to remote monitoring; specific conditions in an FHLBank's district; and a project's risk of non-compliance. FHLBank monitoring plans must be included in an FHLBank's AHP Implementation Plan, and they will continue to be subject to FHFA supervisory oversight and examinations. FHFA will issue its guidance to the FHLBanks by December 15, 2013.

**Recommendation 2:** *Conduct cross-cutting analyses of common issues and themes across the FHLBanks, using appropriate and analytically rigorous methods.*

**Management Response:** FHFA agrees that cross-cutting analyses bring value to a program and, therefore, agrees with this recommendation. However, FHFA also believes that its current examination program involves such analyses, particularly in light of the fact that its examination teams identify AHP matters that will be the focus of examinations in a given year; its examination team leaders meet at least quarterly to discuss examination findings and priorities; and each examination team examines four different FHLBanks in a given year. While we do not believe the Report acknowledges the comparative analysis inherent in the current examination program, FHFA agrees that cross cutting analysis would benefit the AHP.

In response, the Housing and Community Investment (HCI) group, within the FHFA's Division of FHLBank Regulation, will seek ways to more effectively use available AHP data in comparative program evaluations. The group's analysis will be completed by December 15, 2013. In addition, the HCI group will add comparative statistics to the annual FHFA report *Low Income Housing and Community Development Activities of the Federal Home Loan Banks*. In developing the report, the HCI will consult with the FHLBanks' community investment officers and their affordable housing advisory councils to assure the value of the comparative statistics in the report to those entities. This report will be delivered to the FHLBanks by October 31, 2013.

**Recommendation 3:** *Analyze staffing levels needed to perform additional cross-cutting analyses and oversee FHLBank site visits of AHP projects, and take appropriate actions to meet those staffing targets.*

**Management Response:** FHFA agrees with this recommendation. Although FHFA believes that its current AHP examination capacity and planned additions to its existing capacity are sufficient to meet program responsibilities, FHFA agrees that a documented analysis of staffing needs and staffing capacity would be worthwhile. FHFA will complete its assessment of staffing needs and staffing capacity by December 15, 2013.

CC: Bruce Crandlemire  
John Major



## ADDITIONAL INFORMATION AND COPIES.....

For additional copies of this report:

- Call the Office of Inspector General: 202-730-0880
- Fax your request: 202-318-0239
- Visit OIG's website: [www.fhfaoig.gov](http://www.fhfaoig.gov)

To report alleged fraud, waste, abuse, mismanagement, or any other kind of criminal or noncriminal misconduct relative to FHFA's programs or operations:

- Call our Hotline: 1-800-793-7724
- Fax your written complaint: 202-318-0358
- Email us: [oighotline@fhfaoig.gov](mailto:oighotline@fhfaoig.gov)
- Write to us:

FHFA Office of Inspector General  
Attn: Office of Investigation – Hotline  
400 Seventh Street, S.W.  
Washington, DC 20024