

Federal Housing Finance Agency  
Office of Inspector General



**The Division of Federal Home Loan  
Bank Regulation Followed Its  
Guidance in Performing Annual  
Examinations of Each Federal Home  
Loan Bank’s Affordable Housing  
Program but the AHP Examination  
Planning Processes Require  
Improvement**

Audit Report • AUD-2023-001 • February 9, 2023



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February 9,  
2023

## Executive Summary

The Housing and Economic Recovery Act of 2008 charged the Federal Housing Finance Agency (FHFA or Agency) with oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Bank (FHLBank) System. The FHLBank System consists of the 11 FHLBanks and the Office of Finance. Its mission is to provide liquidity to member institutions (commercial banks, credit unions, and insurance companies) to support housing finance and community investment.

To accomplish their mission, FHLBanks provide financial products and services to their members, which include advances (loans). These advances assist and enhance a member's financing of: (1) housing, including single-family and multi-family housing serving consumers at all income levels, and (2) community lending. Through the Affordable Housing Program (AHP), FHLBanks provide assistance in the purchase, construction, or rehabilitation of owner-occupied and rental housing, including homes designed for seniors, the disabled, homeless families, first-time homeowners, and others with limited resources or special needs.

As part of AHP, the FHLBanks are legally required to contribute at least 10 percent of their previous year's net income to subsidize low- and moderate-income rental or owner-occupied housing. Since the inception of the program in 1990 through 2021, the FHLBanks awarded approximately \$7.3 billion in AHP subsidies, assisting more than one million households.

The FHFA Director has delegated to the Deputy Director, Division of Federal Home Loan Bank Regulation (DBR), the duty to supervise the FHLBank System. As such, DBR conducts both on-site annual examinations and off-site monitoring of the FHLBanks and the Office of Finance. We conducted this audit to determine whether DBR performed its examinations of FHLBanks' AHPs in accordance with its guidance. The scope of this audit covered the 2018 through 2021 examination cycles (review period).

We found DBR performed annual examinations of the FHLBanks' AHPs in accordance with its guidance. We also found certain areas of DBR's AHP examination planning process that, if not addressed, could increase the risk that issues with the FHLBanks' administration of their AHPs would not be identified and corrected in a timely manner. First, we identified that DBR did not plan or perform an in-depth review of a significant area within one of the higher risk AHP programs for more than 10 years. DBR officials told us that this in-depth review was delayed awaiting the amendment of an AHP regulation, which took longer than expected, and was not fully applied until 2021. Further, we determined that DBR has not performed an AHP workforce



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planning analysis since 2013 to assess current and future examination needs and determine the staffing levels required to provide adequate examination coverage because DBR's planning process for AHP examinations does not require periodic workforce planning. Finally, DBR's publicly available AHP examination module is out of date. Internal updates to the module have not been subject to the level of structure, collaboration, and review required by FHFA policy due to a lack of needed collaboration between DBR offices.

We make three recommendations in this report. In a written management response, FHFA agreed with our recommendations.

This report was prepared by Jim Lisle, Audit Director; April Ellison, Audit Manager; Marco Uribe, Auditor-in-Charge; Michael Rivera, Auditor; and Christopher Mattocks, Auditor; with assistance from Abdil Salah, Assistant Inspector General for Audits. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, [www.fhfa.org](http://www.fhfa.org), and [www.oversight.gov](http://www.oversight.gov).

James Hodge, Deputy Inspector General for Audits /s/

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## ABBREVIATIONS .....

AHP	Affordable Housing Program
CICA	Community Investment Cash Advance Program
CIP	Community Investment Program
DBR	Division of Federal Home Loan Bank Regulation
FHFA or Agency	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
MRA	Matter Requiring Attention
ODP	Official Documents Policy
OIG	Federal Housing Finance Agency Office of Inspector General
OPB	Operating Procedures Bulletin
OPM	Office of Personnel Management
QCB	Quality Control Branch
ROE	Report of Examination

## BACKGROUND.....

### Affordable Housing Program

The Federal Home Loan Bank Act requires each FHLBank<sup>1</sup> to establish an Affordable Housing Program to fund the purchase, construction, or rehabilitation of affordable housing for very low- and low- or moderate-income households.<sup>2</sup> FHLBanks have established two AHP funding programs to provide the required funding.

- Under the mandatory competitive application program, FHLBanks provide subsidies to their member financial institutions either as grants or as advances with a reduced interest rate, which are then passed on as grants or subsidized loans to eligible affordable housing projects. The bulk of the AHP funding through this program takes the form of grants. FHLBanks evaluate applications for AHP funds based on individual scoring systems established pursuant to the general scoring framework in the AHP regulation.
- Under the discretionary homeownership set-aside program, FHLBanks approve subsidies in the form of grants to their member financial institutions to provide downpayment, closing costs, counseling, or rehabilitation assistance to very low- and low- or moderate-income households in connection with those households' purchase or rehabilitation of an owner-occupied unit.

The FHLBanks typically fund the bulk of AHP subsidies through the competitive application program. For example, in 2021, the FHLBanks awarded a total of approximately \$352.4 million through the AHP nationwide, with approximately \$262.6 million for competitive application programs and \$89.8 million for set-aside programs.

In November 2018, FHFA issued a final rule amending the AHP regulation to provide the FHLBanks additional authority and flexibility over the use of their AHP funds and the selection of projects. The FHLBanks were required to comply with certain amendments by January 1, 2020, and with the rest of the amendments by January 1, 2021.

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<sup>1</sup> Due to the nature of its activities, the Office of Finance does not have an AHP and was excluded from the scope of this audit.

<sup>2</sup> Low- or moderate-income households are defined as households with incomes of 80 percent or less of Area Median Income (AMI). Very low-income households are defined as households with incomes of 50 percent or less of AMI.

## The Community Investment Program and the Community Investment Cash Advance Program

In addition to the AHP, FHLBanks support low-income housing and community development activities through the statutorily mandated Community Investment Program (CIP) and the voluntary Community Investment Cash Advance (CICA) program. Through CIP, FHLBanks provide advances and letters of credit to their member financial institutions to fund housing projects; through CICA, FHLBanks provide long-term advances, letters of credit, and grants to their member financial institutions and housing associates to fund economic development projects. Unlike the AHP, CIP and CICA funding is not subject to specific statutory funding allocation requirements. A variety of factors drive FHLBank member demand for these programs, including community needs in FHLBank districts and broader economic dynamics.

In 2021, the CIP total advance commitments for both housing and economic development projects were approximately \$1.7 billion and CICA advance commitments were approximately \$1 billion.

### FHFA's Division of Federal Home Loan Bank Regulation

The FHFA Director delegated to the Deputy Director, DBR, the duty to supervise the FHLBank System. As such, DBR conducts supervisory activities at each FHLBank, including an annual examination, periodic visitations, special reviews, and offsite monitoring. DBR issues an annual Report of Examination (ROE) to the board of directors of each of the FHLBanks and the Office of Finance. The ROE communicates substantive examination conclusions, principal findings, and the composite and component CAMELSO ratings for each entity.<sup>3</sup>

DBR issues Operating Procedures Bulletins (OPBs) that set forth expectations for examiners who conduct examinations within the FHLBank System.

- DBR's OPB, 2012-DBR-OPB-03, *Workprogram Minimum Frequency Guidelines* (Minimum Frequency OPB), establishes minimum frequencies for the performance of the various individual workprograms used to conduct annual examinations within the FHLBank System.<sup>4</sup> Minimum frequencies are based upon the relative volume,

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<sup>3</sup> CAMELSO is a risk-focused rating system under which each FHLBank is assigned a composite rating based on an evaluation of various aspects of its operations. For the FHLBanks, the components evaluated are Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk. AHP examination results impact the Management and Operational Risk component ratings.

<sup>4</sup> A workprogram contains the worksteps that an examiner performs to meet the examination scope objectives and to document the basis for conclusions on the level of risk and quality of risk management pertaining to the area examined.

complexity, or importance of the FHLBank activities under review and establish a requirement for the Examiner-in-Charge and Associate Director approval for deviations from the established minimum frequencies.<sup>5</sup> This OPB assigns the AHP workprogram an annual minimum frequency.

- DBR’s OPB, 2016-DBR-OPB-01, *Federal Home Loan Bank Examination Workpaper Standards* (Workpaper Standards OPB), establishes expectations for the standards and quality of examination deliverables, including: workprograms, activity memoranda, and conclusion memoranda to support findings and the ROE.
- DBR’s OPB, 2017-DBR-OPB-01, *FHLBank Adverse Examination Findings Processes*, communicates various processes related to adverse examination findings identified during an examination that pose a risk to the safety and soundness of the FHLBanks or instances of non-compliance with laws and regulations, including the assessment of the FHLBanks’ remediation efforts of those adverse examination findings.<sup>6</sup>
- DBR’s OPB, 2018-DBR-OPB-03, *Quality Control Program*, sets forth DBR’s guidance for implementing its quality control program. DBR’s Quality Control Branch (QCB) performs reviews of DBR examination workpapers intended to ensure high quality work products that adhere to DBR’s standards and requirements.<sup>7</sup> This OPB, as written during our review period, notes that QCB specialists should typically select AHP examination work for review each quarter, and on a rotating basis between the AHP examination team leads.

DBR’s AHP examination module provides background information and suggested examination procedures that examiners use when constructing a workprogram to assess an FHLBank’s administration of its AHP.

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<sup>5</sup> Minimum frequencies range from annual to quadrennial.

<sup>6</sup> FHFA, Advisory Bulletin 2017-01, *Classifications of Adverse Examination Findings*, classifies adverse examination findings as Matters Requiring Attention (MRA), Recommendations, and Violations. MRAs are designated as either a critical supervisory matter or a deficiency.

<sup>7</sup> QCB reviews consist of both General and Sectional Reviews. A General Review is conducted for each annual FHLBank and Office of Finance examination; it assesses overall aspects of the examination workpapers. A Sectional Review assesses the workpapers of a specific examination activity, i.e., typically associated with an examination workprogram area, such as AHP.

## FACTS AND ANALYSIS .....

### DBR Performed Annual Examinations of the FHLBanks' AHPs in Accordance With Its Guidance, but DBR's Examination Planning Process Requires Improvement

We found that DBR performed annual examinations of the FHLBanks' Affordable Housing Programs in accordance with its guidance. Specifically:

- DBR performed an annual examination of each of the FHLBank's AHP during our review period as required by DBR's Minimum Frequency OPB.
- DBR examiners prepared all examination workpapers required by DBR's Workpaper Standards OPB to document the areas of review, define the examination objectives, and support examination conclusions, findings, and recommendations for each of the 44 AHP examinations conducted during our review period.
- DBR examiners assessed remediation in accordance with 2017-DBR-OPB-01, *Federal Home Loan Bank Adverse Examination Findings Processes*, for each of the seven MRAs closed during our review period.
- QCB specialists selected and performed 44 General Reviews and 21 Sectional Reviews of AHP workpapers in accordance with 2018-DBR-OPB-03, *Quality Control Program*.

While DBR's Minimum Frequency OPB assigns the AHP workprogram an annual minimum frequency, DBR does not complete an in-depth review of all individual AHP programs in any one examination cycle. Rather, due to the size and complexity of AHP, the AHP examination team identifies individual AHP risk areas to be reviewed each year based on time elapsed since the last review of that risk area, results from the previous year's examinations, and the DBR Deputy Director's priorities. Based on this analysis, the AHP examination team establishes a single examination scope to be performed at each FHLBank. This examination scope typically calls for an overall review of an FHLBank's AHP governance and administration and an in-depth review of one or more of the individual AHP risk areas.<sup>8</sup> However, this planning approach did not ensure that all higher risk areas were subject to a timely in-depth review. Further, the scope of the annual AHP examinations was determined

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<sup>8</sup> Each examination cycle, the AHP examination team will typically review, at each FHLBank, the implementation plan; targeted community lending plan; watch list; suspension and debarments; suspicious activity reports; and policies and procedures, etc. along with an in-depth review of one or more risk areas. This in-depth review usually consists of transaction testing designed to ensure compliance with the AHP regulation and FHLBank policies and procedures.

using available AHP examiners without performing a documented assessment or analysis of resources required to perform timely in-depth reviews of higher risk areas.

***DBR Did Not Perform an In-Depth Review of a Significant Area within the Higher Risk AHP Mandatory Competitive Application Program for More Than Ten Years***

DBR’s guidance does not set minimum frequencies for the in-depth review of individual risk areas within the AHP examination. Further, DBR’s Workpaper Standards OPB does not require, and DBR planning documents did not consistently provide, qualitative or quantitative analysis to support the inclusion or exclusion of particular AHP risk areas in the examination scope. Additionally, DBR policies do not require affirmative approval of the exclusion of significant AHP risk areas from the annual AHP examination scope.

Our analysis of the coverage that AHP examinations provided to individual AHP risk areas found that, while “time elapsed since the last review” is one of the major criteria used to establish its examination scope, DBR did not plan or perform an in-depth review of funding rounds for the AHP mandatory competitive application program, a higher risk area, during our review period.<sup>9</sup> In fact, as of the end of our review period, the most recent in-depth review of an AHP mandatory competitive application program funding round was performed in 2011.<sup>10</sup> Since 2011, the FHLBanks have awarded approximately \$2.7 billion through the AHP mandatory competitive application program.

The AHP Associate Director acknowledged that the AHP mandatory competitive application program was a higher risk program and that its funding round was not subject to an in-depth review since 2011. She explained that initially, DBR was awaiting the development of the AHP Final Rule, which took longer than was expected. Once the AHP Final Rule was

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<sup>9</sup> A funding round is a process by which an FHLBank assesses project applications and awards AHP subsidies to projects that meet regulatory eligibility requirements and score competitively under the FHLBanks’ scoring guidelines.

<sup>10</sup> We found that the AHP examination team did perform in-depth reviews for: the optional homeownership set-aside program; the CIP and the CICA programs; the Affordable Housing Advisory Councils; the FHLBanks’ Implementation Plan and Targeted Community Lending Plan; and remediation policies for problem projects and subsidy repayment determinations once at each FHLBank during our 4-year review period.

finalized, DBR waited further because a full round of funding from the AHP mandatory competitive application program was not completed under the AHP Final Rule until 2021.<sup>11</sup>

The AHP Associate Director told us that certain other examination activities, performed regularly since 2011, have given some assurance that the mandatory competitive application program funds were administered properly. These examination activities include review of FHLBank control activities such as: AHP Implementation and the Targeted Community Lending Plans, which includes an evaluation of the competitive application program’s application scoring criteria; project monitoring, such as monitoring compliance with targeting and affordability commitments made in applications; and the “watch list” for the mandatory competitive application program, which may highlight compliance issues and lead to a deeper dive on problem projects. These other examination activities do not include the types of transaction testing, such as a detailed review of applications and awards of competitive application program funds, typical of an in-depth review and may not identify and correct AHP administration issues in a timely manner.

***DBR’s Planning Process for AHP Examinations Does Not Require Periodic Workforce Planning to Assess Current and Future Examination Needs and Determine the Staffing Levels Required to Provide Adequate Examination Coverage***

Workforce planning is a process for identifying and addressing gaps between an organization’s current staff and its future workforce needs. According to the Office of Personnel Management (OPM), workforce planning serves as the foundation for managing an organization’s human capital. Effective workforce planning enables an organization to align workforce requirements directly to an agency’s strategic and annual business plans. OPM has issued guidance and best practices that provide a framework for effective workforce planning. The OPM framework involves analyzing the mission, vision, and strategic plan for an organization; evaluating the current staff of the organization, including identification of current skills and competencies of the workforce (supply analysis); and forecasting the optimal headcount and competencies necessary to meet the needs of the organization in the future (demand analysis). After supply and demand are analyzed, any gap between supply and demand is evaluated to identify headcount or competency gaps.

We found that DBR’s planning process for AHP examinations does not require periodic workforce planning. Accordingly, DBR was unable to provide a recent documented analysis

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<sup>11</sup> For the 2022 AHP examinations scope, the AHP examination team included an in-depth review of FHLBanks’ 2021 execution of the AHP mandatory competitive application program from initial outreach and marketing through notification of competition awards and follow-up with awardees and non-awardees. As of October 2022, the AHP examination team had completed examinations at 8 of the 11 FHLBanks and identified supervisory concerns within the mandatory competitive application funding round at three of the FHLBanks. An example of a supervisory concern includes lack of sufficient guidance and standards to effectively review applications.

supporting that it has the AHP examiners needed to provide timely AHP examination coverage. While the AHP Associate Director asserted that no areas of significant risk had been excluded from the scope of AHP examinations as a result of insufficient staffing, she acknowledged that the scope of the annual AHP examination is generally driven more by available examiners rather than a documented workforce analysis. A planning process that “backs in” to the examination scope may increase the risk that the AHP examinations would not provide the coverage needed to timely identify and correct issues with the administration of an FHLBank’s AHP program.

The most recent workforce planning analysis of the AHP staffing requirements was performed by FHFA’s Office of Quality Assurance (OQA) in 2013.<sup>12</sup> At that time the AHP examination team was comprised of fourteen (14) staff members: one Associate Director, two managers, one principal policy analyst, one principal examiner, and nine field examiners. OQA concluded that the AHP examination team was adequately staffed at that time. As of the end of our fieldwork, the AHP examination team consists of one Associate Director and nine field examiners, a significant decrease from 2013 staffing levels.<sup>13</sup>

Our audit did not include a review to determine whether the current workforce is sufficient to perform current and future examinations of FHLBanks’ AHPs because staffing decisions are management’s responsibility and such a review was not included as part of our audit objective. Of note, we did find that the AHP examiners currently on staff possessed experience in performing AHP examinations, over half were commissioned examiners, and most have received specialized certification as a Housing Development Finance Professional.

### **FHFA’s Publicly Available AHP Examination Module Is Out of Date and Internal Updates to the Module Have Not Been Developed in Accordance with FHFA’s Official Documents Policy**

We found that FHFA’s publicly available AHP examination module was published in 2013 and is out of date. Since that time, the AHP Final Rule has made changes to the requirements of the AHP. In response to these changes, a DBR official has made updates to suggested AHP examination procedures in “field test” versions of the AHP examination module. These field test versions of the module address key aspects of the AHP regulation as updated by the AHP Final Rule and were used by examiners to plan AHP examinations at FHLBanks over

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<sup>12</sup> This workforce planning analysis was performed in response to recommendations made by OIG in its report titled [FHFA’s Oversight of the Federal Home Loan Banks’ Affordable Housing Programs](#) (Apr. 30, 2013) (EVL-2013-04).

<sup>13</sup> DBR officials told us that part of the decrease in staffing levels was due to an internal transfer of responsibilities. In 2013, the AHP examination team included a principal policy analyst who performed quality control review of AHP examination work. This principal policy analyst and their quality control responsibilities were transferred to DBR’s QCB in December 2017.

the course of our review period. Examination modules are considered FHFA official documents by FHFA’s Official Documents Policy (ODP) and are made publicly available to contribute to a better documented, transparent, and more comprehensive examination program. As these field test versions are not publicly available, they do not further FHFA’s efforts at transparency.

Further, the heads of divisions and offices that originate official documents are responsible for ensuring that all of their official documents meet the requirements of the ODP, which establishes a single Agency approach for developing and clearing high quality Agency decisions and related work products. DBR has established a process for the update of safety and soundness examination modules that is based on the principles set forth in the ODP;<sup>14</sup> however, DBR officials told us that AHP examination module updates were not included in the process due to the specialized knowledge needed to perform the updates and a lack of needed collaboration between the AHP examination team and the Office of Regulatory Policy and Programs. Because updates to the AHP examination module have not been subject to the level of structure, collaboration, and review required by the ODP, there could be an increased risk that the updated AHP examination module may not meet FHFA’s expectations for quality in official documents.

## FINDINGS .....

- DBR did not perform an in-depth review of an AHP mandatory competitive application program funding round for more than ten years.
- DBR has not performed an AHP workforce planning analysis since 2013 to assess current and future examination needs and determine the staffing levels required to provide adequate examination coverage.
- DBR’s publicly available AHP examination module is out of date. Further, updates to the AHP examination module have not yet been subject to the level of structure, collaboration, and review required by the ODP.

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<sup>14</sup> According to the DBR Office of Regulatory Policy & Programs Associate Director, most safety and soundness examination modules are currently undergoing updates and revisions. The process includes collaboration; revisions; and peer, Office of General Counsel, and Deputy Director reviews according to established timelines.

## CONCLUSIONS.....

We found that DBR performed annual examinations of the FHLBanks' AHPs in accordance with its guidance. We also found certain areas of DBR's AHP examination planning process that, if not addressed, could increase the risk that issues with the FHLBanks' administration of their AHPs would not be identified and corrected in a timely manner.

## RECOMMENDATIONS.....

We recommend that the Deputy Director, DBR:

1. Develop and implement procedures that require DBR to assign minimum examination frequencies for in-depth review of Affordable Housing Program risk areas consistent with their underlying risk and establish a requirement for affirmative Deputy Director approval when these minimum frequencies are not met.
2. Perform an AHP workforce planning analysis using the minimum examination frequencies for AHP risk areas established in response to Recommendation 1 to determine current and future examination needs and address any staffing gaps identified.
3. Develop and implement a plan, consistent with the principles of the Official Documents Policy, to update the AHP examination module.

## FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA management an opportunity to respond to a draft of this audit report. FHFA management provided technical comments on the draft report and those comments were considered in finalizing this report. FHFA management also provided a written management response, which is included as an Appendix to this report. In its management response, FHFA agreed with our recommendations and included the following planned corrective actions:

1. DBR will expand its minimum frequency plan to include specific AHP risk areas for review. In subsequent discussions regarding this management response, DBR officials told us that they also plan to establish a requirement for the Deputy Director’s approval when these minimum frequencies are not met. DBR will complete its revisions by July 31, 2023.
2. With the expanded minimum frequency plan established in response to Recommendation 1, DBR will assess its AHP examination staffing needs and document that assessment by August 30, 2023. DBR will use the results of the assessment to inform the division’s Fiscal Year 2024 staffing request.
3. DBR will create a written plan, consistent with the principles of the Official Documents Policy, for the completion of the AHP examination module. DBR will finalize the written plan by June 30, 2023.

We consider FHFA’s planned corrective actions responsive to our recommendations.

## OBJECTIVE, SCOPE, AND METHODOLOGY .....

Our audit objective was to determine whether DBR performed its examinations of FHLBanks' AHPs in accordance with its guidance. The scope of this audit covered the 2018 through 2021 examination cycles (review period).

To accomplish our objective, we:

- Reviewed Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G (September 2014), and determined that the control activities and information and communications components of internal control were significant to this objective, focusing specifically on the underlying principles that management should demonstrate a commitment to recruit, develop, and retain competent individuals; identify, analyze, and respond to risks related to achieving the defined objectives; design and implement control activities through policies; and use quality information to achieve its objectives.
- Assessed the following FHFA and DBR policies, procedures, and guidance and determined the extent to which these policies, procedures, and guidance were consistent with internal control standards:
  - FHFA Examination Manual (December 2013)
  - 2012-DBR-OPB-03, *Workprogram Minimum Frequency Guidelines* (December 19, 2012; last updated October 1, 2020)
  - 2016-DBR-OPB-01, *Federal Home Loan Bank Examination Workpaper Standards* (July 29, 2016; last updated September 9, 2020)
  - 2017-DBR-OPB-01, *Federal Home Loan Bank Adverse Examination Findings Processes* (April 19, 2017; updated January 31, 2022)
  - 2018-DBR-OPB-03, *Quality Control Program* (December 26, 2018; updated September 17, 2019)
  - Affordable Housing Program Module (April 2013)
- Reviewed prior OIG reports on DBR's supervision of FHLBanks and related topics:
  - OIG, [Compliance Review of FHFA's Commitment to Conduct Independent Quality Control Reviews of DBR's Community Investment Examinations](#) (January 6, 2021) (COM-2021-001)

- [OIG, \*DBR's Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA's Standard During the 2017 Examination Cycle but DBR's Community Investment Quality Control Reviews Were Not\* \(August 17, 2018\) \(AUD-2018-010\)](#)
- [OIG, \*FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs\* \(April 30, 2013\) \(EVL-2013-04\)](#)
- Interviewed DBR personnel to gain an understanding of DBR's process for planning and performing its examinations of the FHLBanks' AHPs, workforce planning process for the AHP examination team, recruiting, and developing competent AHP examiners, and updating the AHP examination module.
- Interviewed Office of Regulatory Policy & Programs personnel to gain an understanding of DBR's process for revising and updating safety and soundness examination modules.
- Compared the versions of the AHP module used by examiners throughout the review period to the AHP Regulation and assessed whether the module's examination guidance provides examiners with the work steps necessary to review and evaluate an FHLBank's compliance with the AHP Regulation.
- Analyzed the scope of AHP examinations conducted at all 11 FHLBanks over the review period and determined whether the examination procedures performed were consistent with DBR planning documentation and whether these procedures, taken as a whole, provided effective coverage of significant AHP risk areas.
- Reviewed DBR QCB General Review and Sectional Review Reports to determine whether all significant issues identified by QCB were resolved prior to the issuance of the ROE and whether QCB findings were indicative of any systemic issues.
- Selected a non-projectable sample of 5 examination workpapers from a population of 23 AHP examinations completed during our review period that were not subject to a QCB sectional review. We tested these workpapers to determine whether they provided evidence that the examiner performed independent analysis and clearly supported examination conclusions, findings, and ratings throughout the workprogram, activity memo, conclusions memo (if applicable), and ROE.
- Obtained AHP examination team certificates of training including the FHFA Housing Finance Examiner commission and the Housing Development Finance Professional certificate.

We conducted this performance audit from March 2022 to February 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX: FHFA MANAGEMENT RESPONSE.....

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## Federal Housing Finance Agency

### MEMORANDUM

TO: James Hodge, Deputy Inspector General for Audits

FROM: Joshua Stallings, Deputy Director, Division of FHLBank Regulation 

SUBJECT: Draft Audit Report: *The Division of Federal Home Loan Bank Regulation Followed Its Guidance in Performing Annual Examinations of Each Federal Home Loan Bank's Affordable Housing Program but the AHP Examination Planning Processes Require Improvement*

DATE: January 19, 2023

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Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report. The objective of OIG's audit review was to determine if the Division of FHLBank Regulation (DBR) performed its examinations of each FHLBank's Affordable Housing Program (AHP) in accordance with its guidance. While the report concluded that DBR followed its guidance, it also found areas for improvement and offers three recommendations. As outlined below, FHFA agrees with the recommendations.

**Recommendation 1:** *Develop and implement procedures that require DBR to assign minimum examination frequencies for in-depth review of Affordable Housing Program risk areas consistent with their underlying risk and establish a requirement for affirmative Deputy Director approval when these minimum frequencies are not met.*

**Management Response:** FHFA agrees with the recommendation. Current processes require DBR to scope AHP annually at FHLBank examinations. DBR will expand its minimum frequency plan to include specific AHP risk areas for review. DBR will complete its revisions by July 31, 2023.

**Recommendation 2:** *Perform an AHP workforce planning analysis using the minimum examination frequencies for AHP risk areas established in response to Recommendation 1 to determine current and future examination needs and address any staffing gaps identified.*

**Management Response:** FHFA agrees with the recommendation. With the expanded minimum frequency plan outlined in Recommendation 1 in mind, DBR will assess its AHP

examination staffing needs and document that assessment by August 30, 2023. DBR will use the results of the assessment to inform the division's Fiscal Year 2024 staffing request.

**Recommendation 3:** *Develop and implement a plan, consistent with the principles of the Official Documents Policy, to update the AHP examination module.*

**Management Response:** FHFA agrees with the recommendation. DBR will create a written plan, consistent with the principles of the Official Documents Policy, for the completion of the AHP examination module. DBR will finalize the written plan by June 30, 2023.

I would like to acknowledge the dedication and professionalism by the OIG staff who conducted this audit. We find the report and its conclusions valuable in continuing to enhance our supervisory program. If you have any questions relating to our response, please contact Richard Dalton.

cc: Edom Aweke  
John Major  
Richard Dalton

## ADDITIONAL INFORMATION AND COPIES.....

For additional copies of this report:

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- Fax: 202-318-0239
- Visit: [www.fhfaoig.gov](http://www.fhfaoig.gov)

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

- Call: 1-800-793-7724
- Fax: 202-318-0358
- Visit: [www.fhfaoig.gov/ReportFraud](http://www.fhfaoig.gov/ReportFraud)
- Write:

FHFA Office of Inspector General  
Attn: Office of Investigations – Hotline  
400 Seventh Street SW  
Washington, DC 20219