Federal Housing Finance Agency
Office of Inspector General

Assessment of DBR's Oversight of the FHLBank System Corporate Governance

Audit Report • AUD-2026-005 • September 17, 2026

EXECUTIVE SUMMARY

PURPOSE

Each Federal Home Loan Bank (FHLBank) and the Office of Finance, collectively, the FHLBank System, have a board of directors responsible for the strategic direction of the entity and senior management responsible for implementing it. FHFA has established requirements for the boards of directors and senior management's corporate governance activities in regulation.

As part of our ongoing oversight of Division of Federal Home Loan Bank Regulation's (DBR) supervision of the FHLBank System, we performed this audit to determine whether DBR provided sufficient oversight of FHLBanks' and the Office of Finance's corporate governance from January 1, 2025, through December 31, 2025 (audit scope). FHFA's oversight of the compensation arrangements of the FHLBanks' and the Office of Finance's board of directors and senior management, while part of FHFA's oversight of corporate governance, is not included in the scope of this report. We will present our conclusions on such arrangements in a separate audit report.

RESULTS

We determined that DBR provided sufficient oversight of the FHLBank System's corporate governance during the audit scope. With exception to compensation arrangements to be reported on separately, we found that DBR's examination guidance defined needed processes and controls consistent with FHFA's corporate governance regulations and provided examiners with worksteps needed to evaluate the risks associated with the FHLBank System's corporate governance. DBR's supervisory activities during the audit scope met minimum frequency requirements. For the four examinations that we sampled, DBR: provided risk-based coverage of the FHLBank System's corporate governance; sufficiently documented independent examiner analysis to support their supervisory conclusions in accordance with its workpaper standards; identified corporate governance deficiencies which resulted in the appropriate adverse examination findings; and, fully supported the Management component rating representing the overall performance of the board of directors and senior management assigned to each sampled examination.

We made no recommendations in this report.

This report was prepared by James Lisle, Audit Director; Marco Uribe, Auditor-in-Charge; Jianxun Pan, Auditor; and Jeffrey Lloyd, 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.fhfaoig.gov,](http://www.fhfaoig.gov) and www.oversight.gov.

James Hodge /s/
Deputy Inspector General for Audits

TABLE OF CONTENTS

ABBREVIATIONS

AB	Advisory Bulletin
C.F.R.	Code of Federal Regulations
Corporate Governance Rule	12 C.F.R. Part 1239, Responsibilities of Boards of Directors, Corporate Practices, and Corporate Governance
DBR	Division of Federal Home Loan Bank Regulation
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
FHLBank System	Federal Home Loan Bank System
GAO	Government Accountability Office
MRA	Matters Requiring Attention
OIG	FHFA Office of Inspector General
OPB	Operating Procedure Bulletin
PMOS	Prudential Management and Operations Standards

BACKGROUND

Board of Directors and Senior Management

Each FHLBank and the Office of Finance have a board of directors that is responsible for the strategic direction and objectives of the entity.[1] The boards of directors hold senior management accountable for meeting those strategic objectives within the FHLBanks' and the Office of Finance's respective risk appetite and established parameters. As of December 31, 2025, the FHLBank System's boards of directors ranged in size from 13 to 22 directors elected by member institutions to serve four-year terms.[2]

Senior managements' role in corporate governance is distinct from that of the boards of directors. Senior management implements the boards' strategic objectives, ensures the FHLBanks and the Office of Finance operate in a safe and sound manner and within its risk appetite, complies with laws and regulations, and adheres to guidance, policies, and procedures. Additionally, senior management is responsible for reporting to the boards of directors the FHLBanks' or the Office of Finance's condition, performance, and exposures to any risk. The size of senior management varies but generally includes the president/chief executive officer, chief financial officer, and a number of other senior executives responsible for, among other things, operations, risk management, and compliance.

Corporate Governance Regulatory Requirements and Supervisory Expectations

Corporate governance is a system of practices and procedures directing the strategic direction of the entity while promoting safety and soundness of its operations. FHFA assigns responsibility for corporate governance to the FHLBank System's boards of directors and senior management and sets requirements for appropriate corporate governance measures in 12 C.F.R. Part 1239, Responsibilities of Boards of Directors, Corporate Practices, and Corporate Governance (Corporate Governance Rule) and 12 C.F.R. Part 1236, Appendix to Part 1236 Prudential Management and Operations Standards (PMOS).

[1] The Office of Finance's board of directors is comprised of the 11 FHLBank presidents and five independent directors (including one vacancy as of December 31, 2025). An independent director is an individual who is experienced in financial or accounting matters who is also not an officer, director, employee, or member of an FHLBank or the Office of Finance.

[2] FHFA determines the size of the board based on a mathematical formula that allocates directorships relative to amounts of FHLBank stock required to be held by members located in each State within each district. Member institutions are institutions that have been approved for membership in one of the FHLBanks and have purchased capital stock in the FHLBank in accordance with FHFA regulations.

FHFA provides additional guidance to the FHLBank System outlining its supervisory expectations for adherence to the corporate governance regulatory requirements through the following advisory bulletins (AB):

- AB 2016-05, *Internal Audit Governance and Function,* requires the FHLBank System to establish independent Internal Audit functions and expects those functions to provide timely feedback to management and assurance to board of director audit committees on the effectiveness of regulated entities' internal controls, risk management, and governance.
- AB 2010-02, *Strategic Plans,* establishes the principles by which FHFA will evaluate the FHLBank System's strategic plans, which is the process of defining its future strategy and its process for making decisions on allocating its resources to pursue this strategy.
- AB 2001-04, *Conflicts of Interest*, instructs the FHLBank System to review their conflict of interest policies to ensure compliance with applicable regulations and to determine whether their policies provide clear and adequate guidance to directors and bank staff regarding situations in which actual or apparent conflicts may arise.

FHFA also established requirements and processes for the compensation arrangements of the FHLBank System's boards of directors and senior management in subpart C of 12 C.F.R. Part 1261, Federal Home Loan Bank Directors' Compensation and Expenses and 12 C.F.R. Part 1230, Executive Compensation.[3] FHFA's oversight of such compensation arrangements, while part of FHFA's oversight of corporate governance, is not included in the scope of this audit report. Our conclusions on FHFA's oversight of compensation will be reported in a separate audit report.

Annual Examinations of the FHLBank System

DBR conducts risk-based supervisory activities, including annual examinations, periodic visitations, special reviews, and offsite monitoring of the FHLBank System.[4] At the conclusion of each examination, DBR issues a report of examination to the respective FHLBank's or the Office of Finance's board of directors. The report of examination communicates substantive

[3] These regulations stipulate that the FHLBank System pay senior executives and directors reasonable and comparable compensation in relation to that executives' duties and responsibilities or in the case of directors, reflect the amount of time that director spent on official business. These regulations also stipulate what types of compensatory requests must be reviewed by FHFA and details how FHFA has the authority to disapprove or object to any unreasonable compensatory request.

[4] Beginning January 1, 2026, DBR transitioned to a continuous supervision program that consists of targeted examinations and ongoing monitoring of the FHLBank System.

examination conclusions, principal findings, including all Matters Requiring Attention (MRA),[5] and the composite and component CAMELSO ratings.[6] Corporate governance is primarily assessed in the Management component of the CAMELSO rating system, which concludes on the performance of the board of directors' and senior management's capability and willingness of to identify, measure, monitor, and control the risks of the respective FHLBank or the Office of Finance.

DBR Guidance for Oversight of the FHLBank System's Corporate Governance

DBR assesses corporate governance primarily through the completion of the Board of Directors and Senior Management examination module and workprogram.[7] Examiners use suggested worksteps from the module to develop the scope and procedures for conducting examinations.[8] However, conclusions from other workprograms may also be considered when reaching conclusions on corporate governance. For example, examiners may consider conclusions reached in the Enterprise Risk Management, Strategic Planning, Internal and External Audit, Insurance Management, Financial Reporting, and FHLBank Membership workprograms, when these workprograms are performed.[9]

Examiners conduct and document their examination work in accordance with DBR's Operating Procedure Bulletins (OPBs), which are as follows:

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[5] AB 2017-01, *Classifications of Adverse Examination Findings*, identifies three broad classifications of findings: MRAs, which are the most serious; recommendations; and violations. MRAs consist of either "critical supervisory matters (the highest priority), which pose substantial risk to the safety and soundness of the regulated entity" or "deficiencies," which if not corrected, could "escalate and potentially negatively affect" the regulated entity. Recommendations are advisory in nature and suggest changes to a policy, procedure, practice, or control that supervision staff believes would improve, or prevent deterioration in, condition, operations, or performance. Violations are matters in which an examination discloses noncompliance with laws, regulations, or orders.

[6] CAMELSO is a risk-focused rating system under which each FHLBank and the Office of Finance is assigned a composite rating based on an evaluation of various aspects of its operations. For a FHLBank, the components evaluated are Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk. Due to the nature of its activities, the Office of Finance is rated only for the Management and Operational risk components.

[7] FHFA Examination Manual, Board of Directors and Senior Management module and workprogram (July 2018, updated July 2025).

[8] A workprogram contains the examination procedures and suggested lines of inquiry 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.

[9] Per 2012-DBR-OPB-03, *Work Program Minimum Frequency Guidelines,* the Board of Directors and Senior Management workprogram examination is conducted annually; the Enterprise Risk Management, Strategic Planning, Internal and External Audit workprograms are conducted biennially; the FHLBank Membership workprogram is conducted triennially; Insurance Management and Financial Reporting workprograms are conducted quadrennially.

- 2012-DBR-OPB-03, *Work Program Minimum Frequency Guidelines,* establishes minimum frequency guidelines for completing the work programs for DBR's supervision staff use in an examination's onsite scope. The Board of Directors and Senior Management workprogram has been assigned an annual minimum frequency.

- 2016-DBR-OPB-01, *Federal Home Loan Bank Examination Workpaper Standards,* establishes expectations for the standards and quality of examination workpapers, including examination planning workpapers, analysis, and conclusions.

- 2017-DBR-OPB-01, *Federal Home Loan Bank Adverse Examination Findings Processes,* describes MRAs along with the controls DBR implements to ensure adverse findings are remediated.

- 2018-DBR-OPB-03, *Quality Control Program*, sets forth DBR's guidance for implementing its quality control program for examination workpapers.

OBJECTIVE AND SCOPE ....

The objective of our audit was to determine whether DBR provided sufficient oversight of the FHLBank System's corporate governance. The audit scope included DBR's supervision and oversight activities from January 1, 2025, through December 31, 2025 (audit scope). FHFA's oversight of the compensation arrangements for the FHLBank System's board of directors and senior management, while part of FHFA's oversight of corporate governance, is not included in the scope of this report. We will present our conclusions on such oversight in a separate audit report.

For details on methodology see the Appendix.

RESULTS

DBR provided sufficient oversight of the FHLBank System's corporate governance in compliance with its guidance for examination activities. With exception to compensation arrangements to be reported on separately, we determined that:

- DBR's Board of Directors and Senior Management module and workprogram defined needed processes and controls consistent with the applicable regulatory PMOS and Corporate Governance Rule requirements and provided examiners with worksteps needed to evaluate the risks associated with the FHLBank System's corporate governance.

- DBR completed the Board of Directors and Senior Management workprogram for each of the 11 FHLBanks and the Office of Finance, in accordance with the annual minimum frequency requirement.

- DBR provided risk-based coverage of the FHLBank System's corporate governance in the four examinations that we sampled. For each Board of Directors and Senior Management workprogram sampled, DBR prepared a pre-examination analysis memorandum that documented the agreed-upon examination approach (objectives, scope, and worksteps). The examination approach was based on insights gained from prior examination results, management questionnaires, visitations since the last examination, and information from the alert letter.[10] DBR completed the planned worksteps to provide risk-based coverage of the FHLBank System's corporate governance as follows:

    - Assessed the policies and procedures for strategic planning processes for compliance with regulations and supervisory expectations. DBR determined that these policies and procedures were generally adequate in all four of the sampled examinations.

    - Evaluated the board of directors and senior management organizational structure primarily for the appropriateness of its progress in filling current and future board of director and senior management vacancies (e.g., succession planning, hiring efforts). DBR determined that succession planning or hiring efforts were generally adequate in all four examinations.

    - Assessed the FHLBank System's risk culture to determine the sufficiency of the FHLBank System's risk identification process and the description of risks

[10] DBR sends the alert letter to the FHLBanks or the Office of Finance during its planning, prior to the on-site portion of the annual examination. The alert letter, among other things, describes the focus of the examination, requests documents and reports, and includes questionnaires for the board chair, audit committee chair, and senior management.

presented to the board. DBR determined that the risk identification process was appropriate in two of the sampled examinations. For one examination, DBR determined that previously identified issues with the risk management framework process remained, and corrective actions detailed in a memorandum of understanding were still open. For the other examination, DBR identified issues related to risk reporting which resulted in an MRA.

  - Reviewed board of directors' meeting minutes and assessed the appropriateness of senior management's reporting to the board of directors. For each of the sampled examinations, DBR determined that senior management appropriately reported financial and risk metrics to the board of directors.

  - Assessed the status of the management's efforts to remediate adverse examination findings from the prior year's examination. For the four examinations in our sample, DBR closed 27 of the 32 findings from the prior year's examinations. DBR kept the remaining five findings open because not all elements were remediated.

- DBR performed and documented the following examination activities in accordance with applicable OPBs for our sample of four examinations.

  - Completed all planned worksteps consistent with the agreed-upon approach. Any changes to worksteps were appropriately approved.

  - Supported all conclusions with independent examiner analysis. There was a logical flow of all conclusions to subsequent work products, including the activity memorandum, the conclusion memorandum, and the report of examination.[11]

  - Identified deficiencies that resulted in adverse examination findings.

  - Supported the Management component ratings with findings and conclusions from the Board of Directors and Senior Management workprogram, along with conclusions from other applicable workprograms (e.g., Enterprise Risk

[11] The activity memorandum is a DBR internal document that summarizes examiner workprogram conclusions along with discussion of any applicable findings. The conclusion memorandum is also a DBR internal document that contains a comprehensive summary of all applicable workprogram conclusions for that CAMELSO component and supports the recommended CAMELSO component rating as well as serves as the primary source for drafting the report of examination. The report of examination contains examination conclusions and any summaries of adverse findings from all of the CAMELSO components and includes the FHLBanks' or the Office of Finance's annual CAMELSO composite rating issued to the board of directors and senior management.

Management, Strategic Planning, Internal Audit, and External Audit workprograms) completed during our audit scope.

We found no exceptions with DBR's corporate governance examination activities, and as such, make no recommendations in this report. As noted in the Objective and Scope section, our conclusions on oversight of the compensation arrangements for the FHLBank System's board of directors and senior management will be presented in a separate audit report.

FHFA COMMENTS AND OIG EVALUATION................................

We provided FHFA an opportunity to comment on a draft of this report. FHFA management did not provide any technical comments and chose not to provide a written management response because there were no recommendations.

APPENDIX: METHODOLOGY ....

To accomplish our objective, we performed the following procedures:

- Reviewed Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (GAO-14-704G; May 2014), applicable during the audit scope,[12] and determined that the control activities component of internal control was significant to this objective. We focused on the underlying principles that management should: (1) design control activities to achieve objectives and respond to risks and (2) implement control activities through policies.

- Reviewed the following laws, regulations, and guidelines significant within the context of the audit objective:

    - 12 U.S.C. § 1427, Directors

    - 12 C.F.R. Part 1239, Responsibilities of Boards of Directors, Corporate Practices, and Corporate Governance

    - 12 C.F.R. Part 1236 and Appendix to 12 C.F.R. Part 1236 – Prudential Management and Operations Standards

- Reviewed the following FHFA supervisory guidance to identify FHFA's supervisory expectations related to the FHLBank System's implementation of regulatory requirements of corporate governance:

    - AB 2016-05, *Internal Audit Governance and Function* (October 2016, Revised May 2025)

    - AB 2010-02, *Strategic Plans* (November 2010)

    - AB 2001-04, *Conflicts of Interest* (February 2001)

- Reviewed the following FHFA examination modules and workprograms to identify examination guidance and suggested worksteps for examiners to conduct examinations of the FHLBank System's corporate governance:

[12] GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G) issued in September 2014 was applicable during our audit scope. The 2014 version has been superseded by GAO's *Standards for Internal Control in the Federal Government* (GAO-25-107721) which was issued in May 2025 and is effective beginning in fiscal year 2026.

- FHFA Examination Manual, Board of Directors and Senior Management module and workprogram (July 2018, updated July 2025)
- FHFA Examination Manual, Enterprise Risk Management module and workprogram (March 2018, updated August 2025)
- FHFA Examination Manual, Internal Audit module and workprogram (April 2020)
- FHFA Examination Manual, External Audit module and workprogram (August 2021)
- FHFA Examination Manual, Strategic Planning module and workprogram (March 2013)
- FHFA Examination Manual, Business Resiliency Management Program module and workprogram (June 2025)

- Reviewed the following DBR guidance to identify requirements for DBR's supervisory activities:
    - 2012-DBR-OPB-03**,** *Work Program Minimum Frequency Guidelines* (December 19, 2012, updated June 5, 2024)
    - 2016-DBR-OPB-01, *Federal Home Loan Bank Examination Workpaper Standards* (July 29, 2016; 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 December 21, 2021)

- Confirmed the consistency of the DBR's examination guidance with the FHLBank System's regulatory requirements by comparing the individual worksteps included in the Board of Directors and Senior Management Module to the applicable requirements established in 12 C.F.R. § 1239, Corporate Governance Rule, and Appendix to 12 C.F.R. Part 1236 PMOS to determine whether DBR's examination guidance (1) is consistent with FHFA's criteria and/or supervisory expectations for corporate governance and that guidance (2) provides examiners the necessary worksteps to review and evaluate the FHLBank System's corporate governance.

- Confirmed the completeness and reliability of DBR's Finding Management System MRA population by selecting a random sample of 3 of the 12 (25 percent) FHLBanks or Office of Finance and reviewed each issued MRAs recorded data values against source documentation. In determining the sample size, FHFA-OIG's sampling guidance recommends a range of 10 to 20 percent for this type of review. While there was no intent to project our results, our random selection of 25 percent of the population exceeded the recommended range and the random selection process allowed us to avoid any bias.

- Determined a population of 12 Board of Directors and Senior Management workprograms DBR completed for the FHLBank System during the audit scope, confirmed the population of workprograms with DBR. Assessed whether the workprograms were performed in accordance with the annual minimum frequency requirement.

- Selected a non-statistical, risk-based sample of 4 of the 12 (33 percent) Board of Directors and Senior Management workprograms completed during our audit scope. Our selection was based on risk factors including, changes in senior executives, the FHLBanks' or the Office of Finance's Management component rating, number of Management component MRAs, total number of MRAs, and degree of other applicable workprogram coverage. The results of our sample are not projectible to the entire population of Board of Directors and Senior Management examinations.

- For the sample of four Board of Directors and Senior Management workprograms, we reviewed whether:

    - The pre-examination analysis memorandum documents the agreed-upon approach (objectives, scope, and worksteps) for the examination.

    - All changes in scope from the agreed-upon approach were documented and approved by the appropriate DBR official.

    - The worksteps documented in the workprogram were consistent with the pre-examination analysis memorandum and conclusions were supported by independent examiner analysis that authenticates the information or data developed by the FHLBanks' or the Office of Finance's.

    - The completed Board of Directors and Senior Management workprogram worksteps provided sufficient risk-based coverage of the corporate governance risk areas detailed in the regulatory framework. This risk-based coverage included DBR assessing the policies and procedures of the strategic planning process; the organizational structure of the board of directors and senior management, including succession planning and hiring efforts; the risk culture such as the risk identification process and the description of risks presented to the board; the appropriateness of board minutes and senior management's reporting to the board; and, the status of the management's efforts to remediate all findings from the prior year's examination.

  - Conclusions in the analysis memoranda logically flowed from the workprogram and adverse conclusions resulted in the appropriate type of adverse examination finding.

  - The Management component rating was supported by the findings and conclusions made in the completed Board of Directors and Senior Management workprograms and, where applicable, the Enterprise Risk Management, Strategic Planning, Internal and External Audit workprograms.

- Interviewed DBR personnel to gain an understanding of DBR's oversight of the FHLBank System's corporate governance. DBR personnel included Deputy Director and Associate Directors. Obtained written responses, as needed, from DBR personnel to address questions and observations related to our audit testing procedures.

- Assessed the sufficiency of oversight by determining whether: (1) DBR's designed examination guidance aligned with FHFA's corporate governance regulations and provided examiners with the worksteps needed to provide such oversight; (2) DBR's supervisory activities during the audit scope met minimum frequency requirements; (3) for a sample of four examinations (a) DBR provided risk-based coverage of the FHLBank System's corporate governance; (b) sufficiently documented examiner analysis to support their supervisory conclusions in accordance with its workpaper standards; (c) issued the appropriate adverse examination findings when corporate governance deficiencies were identified; and, (d) fully supported the Management component ratings assigned to each sampled examination.

We conducted this performance audit from January 2026 to September 2026 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 our 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.

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