



**FHFA and FHLBank Coordination  
with Regulators Improved After the  
Spring 2023 Bank Failures, but  
Several FHLBanks Faced  
Challenges Obtaining Timely  
Supervisory Information**

## ..... EXECUTIVE SUMMARY .....

### PURPOSE

The Federal Housing Finance Agency (FHFA or the Agency) identified the need for increased coordination among the Federal Home Loan Banks (FHLBanks) and their members' federal and state financial regulators as a lesson of the Spring 2023 bank failures.

These regulators have responsibility for supervising the safety and soundness of financial institutions within their jurisdiction. Supervisory information from the regulators, such as their confidential examination reports, helps the FHLBanks to better understand the financial condition, management quality, and risk profile of their members.

We conducted this evaluation to assess the current legal, regulatory, and operational framework that applies to the sharing of federal and state financial regulators' relevant supervisory information about FHLBank System members with FHFA and the FHLBanks.

### RESULTS

According to Division of Federal Home Loan Bank Regulation (DBR) executives, their coordination with peer federal regulators concerning troubled members has improved since the Spring 2023 bank failures. However, staffing changes across the agencies and the suspension of an initiative to conduct tabletop activities could impede further progress.

We issued three findings in this report. The first two findings relate to the FHLBanks' lack of access to supervisory information about their members. We found that during the review period (November 1, 2022 to September 30, 2024) at least two FHLBanks received redacted reports of examination (ROEs) from federal regulators. A third FHLBank could not obtain a federal regulatory report that contained relevant supervisory information. As a result of the redactions in the reports provided, and a regulator's decision not to provide a report, the FHLBanks may have lacked information needed to adequately inform their decisions on membership applications and advance lending.

We also found that seven state regulators did not share their ROEs with the FHLBanks, creating risk visibility gaps.

Finally, we found lapses in the FHLBanks' receipt of material adverse event notifications, the process by which members notify their FHLBank of negative changes to their financial or operating condition. In one case, an FHLBank extended advances to two troubled members without awareness of information that could have led to stricter lending terms.

### RECOMMENDATIONS

We made six recommendations to address our findings. In a written response, FHFA management agreed with our recommendations.

This report was prepared by Jon Anders, Lead Program Analyst, and Reginald Warren, Program Analyst, with assistance from Adrienne Freeman, Investigative Counsel. 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.ig.gov](http://www.fhfa.ig.gov), and [www.oversight.gov](http://www.oversight.gov).

Kyle D. Roberts  
Deputy Inspector General for Evaluations /s/

## TABLE OF CONTENTS .....

EXECUTIVE SUMMARY .....	2
ABBREVIATIONS .....	6
BACKGROUND .....	7
FHFA Requires the FHLBanks to Manage the Credit Risk Associated with Advances Extended to Members .....	7
FHLBanks May Deny or Limit a Member’s Request for an Advance Based on Financial, Managerial, or Other Deficiencies .....	8
Congress Granted FHLBanks Authority to Obtain Examination Reports from Federal Banking Regulators in 1989 .....	8
Reports of Examination Issued by Members’ Regulators Contain Information That Is Meaningful and Relevant to the FHLBanks’ Assessment of Their Members’ Credit Risk .....	9
FHFA Requires the FHLBanks to Obtain and Review “Regulatory Examination Reports” of Applicants for Membership and Expects the FHLBanks to Review Such Reports in Conjunction with Their Ongoing Monitoring of Member Creditworthiness .....	11
During the Spring of 2023, FHFA and the FHLBanks Experienced Challenges Obtaining Supervisory Information from Counterpart Financial Regulators of Failing Institutions .....	12
OBJECTIVES AND SCOPE .....	13
RESULTS .....	14
Communication Between FHFA Supervisory Personnel and Federal Regulatory Agencies Improved After the Spring 2023 Bank Failures, but Coordination Initiatives Are on Hold .....	14
Although FHLBank Management Regularly Communicated with Their Members’ Financial Regulators, Several FHLBanks Did Not Receive Timely Supervisory Information Regarding Troubled Members .....	15
Finding 1: Several FHLBanks Received Incomplete Supervisory Information from Federal Regulators .....	16
Two FHLBanks Received Redacted ROEs from the Members’ Federal Regulators .....	16

FHFA Expects FHLBanks to Receive and Review Unredacted ROEs, and DBR Plans to Work with Other Regulators to Address FHLBanks Access to Unredacted ROEs.....	17
Access to Supervisory Information from Federal Regulators Other Than Reports of Examination .....	18
According to FHFA, Statutory and Regulatory Information Sharing Provisions Cover Relevant Interim Supervisory Communications.....	18
Finding 2: Some States Do Not Share Reports of Examination with the FHLBanks.....	19
Seven States in Our Sample Do Not Share ROEs with the FHLBanks.....	20
The Inability to Obtain and Review State-Issued ROEs Could Affect the FHLBanks’ Ability to Exercise their Discretion to Limit or Deny Advances in Accordance with FHFA Regulation.....	21
DBR Has Not Yet Reviewed State-Issued ROE Access Across the FHLBank System .....	22
Finding 3: The FHLBanks’ Material Adverse Change Notification Process Does Not Appear to Function as Designed.....	23
DBR Issued Examination Findings to Several FHLBanks Regarding Their Inadequate Enforcement of Material Adverse Change Notification Requirements.....	24
FHFA COMMENTS AND OIG EVALUATION.....	25
APPENDIX I: FLOW OF RELEVANT SUPERVISORY INFORMATION .....	26
APPENDIX II: METHODOLOGY .....	27
APPENDIX III: FHFA MANAGEMENT RESPONSE.....	29

## ABBREVIATIONS .....

AB 2024-03	Advisory Bulletin AB 2024-03: Member Credit Risk Management
CSBS	Conference of State Bank Supervisors
DBR	Division of Federal Home Loan Bank Regulation
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System or the Federal Reserve Bank responsible for supervision of the applicable FHLBank member
FHFA or Agency	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
FHLBank System	The 11 FHLBanks and the Office of Finance, collectively
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OGC	FHFA's Office of General Counsel
ROE	Report of Examination

## BACKGROUND.....

The Federal Home Loan Bank System consists of 11 FHLBanks and the Office of Finance (the FHLBank System). The FHLBanks are cooperatively owned by about 6,500 members. They play a key role in housing and community development by providing liquidity to their members, primarily through secured loans, known as advances.<sup>1</sup> While advances have a relatively low risk of loss because they must be secured in full by collateral, the Agency considers them to be among the largest sources of credit risk to the FHLBanks.

The membership of the FHLBank System is comprised of commercial banks, credit unions, savings institutions, insurance companies, and other financial institutions. This report focuses on the FHLBanks' depository institution members, that is, banks, savings associations, and credit unions. Depository institutions make up nearly 90 percent of the FHLBank System's membership.

### **FHFA Requires the FHLBanks to Manage the Credit Risk Associated with Advances Extended to Members**

FHFA adopted minimum standards of safety and soundness for credit risk management in 2012. Those standards mandate, among other things, that each FHLBank have “policies, procedures, and systems for evaluating credit risk that will enable it to make informed credit decisions.”<sup>2</sup> Member credit risk is the potential that an FHLBank member will fail to meet its obligations to the FHLBank, such as repayment of advances, in accordance with agreed upon terms.

The Agency issued guidance in 2024 that further explains its supervisory expectations. Advisory Bulletin AB 2024-03 states that an FHLBank's credit risk management framework should incorporate “quantitative and qualitative components” and ensure that lending terms and conditions “are commensurate with a member's financial condition, its financial capacity and willingness to repay credit obligations.”<sup>3</sup> The framework should also “reasonably prevent undue

---

<sup>1</sup> FHFA regulation defines an advance as a “loan from [an FHL]Bank that is: (1) Provided pursuant to a written agreement; (2) Supported by a note or other written evidence of the borrower's obligation; and (3) Fully secured by collateral in accordance with the [FHL]Bank Act and [12 C.F.R. Part 1266].” 12 C.F.R. § 1266.1.

<sup>2</sup> See Appendix to 12 C.F.R. Part 1236, Standard 9—*Management of Credit and Counterparty Risk*, Principle 6. These standards are required by statute, specifically, 12 U.S.C. § 4513b, and the failure to meet any of them may constitute an “unsafe and unsound practice” for purposes of FHFA's enforcement provisions, 12 U.S.C. chapter 46, subchapter III.

<sup>3</sup> FHFA, [AB 2024-03: Member Credit Risk Management](#), at 3 (Sep. 27, 2024) (hereinafter, AB 2024-03). An FHFA regulation also provides that an FHLBank must require any member to which an advance is made to enter into “a primary and unconditional obligation to repay such advance . . . according to the terms under which such advance was made . . .” See 12 C.F.R. 1266.2(b)(1).

credit risk exposure from a troubled member and should require a review of members with poor financial health prior to fulfilling a member funding request.”<sup>4</sup>

Moreover, FHFA advised in a published report that an FHLBank’s timely assessment of a member’s financial condition and ability to repay an advance ensures that it can deploy risk mitigation measures, such as restricting credit terms to the member, requiring delivery of collateral, and communicating actively with the member’s regulators.<sup>5</sup>

### ***FHLBanks May Deny or Limit a Member’s Request for an Advance Based on Financial, Managerial, or Other Deficiencies***

FHFA’s regulation governing advances makes clear that an FHLBank may make advances (or renew maturing advances) “only if the [FHL]Bank determines that it may *safely* make such advance or renewal to the member” (emphasis added).<sup>6</sup> According to the regulation, an FHLBank has discretion to limit or deny a member’s application for an advance if, in the FHLBank’s judgment, the member has “financial or managerial deficiencies” that “bear upon the member’s creditworthiness.”<sup>7</sup> Reports of examination (ROE) prepared by a member’s federal and state financial regulators are important sources of information about financial or managerial deficiencies at the institution.<sup>8</sup>

## **Congress Granted FHLBanks Authority to Obtain Examination Reports from Federal Banking Regulators in 1989**

Section 719 of Title VII of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 amended the Federal Home Loan Bank Act to provide that, “upon request by any Federal Home Loan Bank,” the relevant federal banking regulator “shall make available . . . such reports, records, or other information as may be available, relating to the condition of any member of any Federal Home Loan Bank or any institution with respect to which any such [FHL]Bank has had or contemplates having transactions . . . .”<sup>9</sup>

---

<sup>4</sup> AB 2024-03, at 8.

<sup>5</sup> FHFA, [FHLBank System at 100: Focusing on the Future](#), at 34 (Nov. 2023) (hereinafter, FHLBank System at 100 Report).

<sup>6</sup> 12 C.F.R. § 1266.4(a)(2).

<sup>7</sup> 12 C.F.R. § 1266.4(a)(1)(iv). Under the same regulation, an FHLBank may also limit or deny request for advances if the member has “any other deficiencies, as determined by the Bank.”

<sup>8</sup> FHFA regulation 12 C.F.R. § 1263.11 uses the term “regulatory examination report,” whereas FHFA’s AB 2024-03 uses the term “reports of examination.”

<sup>9</sup> This provision is codified at 12 U.S.C. § 1442(a). The Federal Reserve implemented the statutory requirement via a supervisory letter to the officer in charge of supervision at each Federal Reserve Bank. See Federal Reserve, [Information Sharing with the Federal Home Loan Banks](#), SR 90-33 (FIS), (Sep. 21, 1990).



FHFA regulations set forth the procedures that the FHLBanks must follow when requesting “confidential regulatory information” from a federal “financial regulatory agency.” The Agency defines “confidential regulatory information” to include, among other things, “any . . . report, including but not limited to *examination reports, or any part thereof*, that is non-public, privileged or otherwise not intended for public disclosure which is in the possession or control of a financial regulatory agency and which contains information regarding members of a [FHL]Bank or financial institutions with which a [FHL]Bank has had or contemplates having transactions under the [FHL]Bank Act” (emphasis added).<sup>10</sup> In this report, we refer to this information generally as “supervisory information.”

### **Reports of Examination Issued by Members’ Regulators Contain Information That Is Meaningful and Relevant to the FHLBanks’ Assessment of Their Members’ Credit Risk**

The FHLBank System’s depository institution members are supervised by different federal and state financial regulators, depending on, among other factors, whether the institution has a state or federal charter and whether it is a member of the Federal Reserve System.<sup>11</sup> For example, a combination of federal and state regulators supervise commercial banks and savings institutions, while the National Credit Union Administration (NCUA) regulates and supervises credit unions.<sup>12</sup> These federal and state financial regulators have the responsibility for examining the safety and soundness of institutions within their jurisdiction.

In its regulations, FHFA defines the federal “financial regulatory agenc[ies]” from which the FHLBanks are authorized to receive ROEs and other supervisory information about their members. They are:

- the Board of Governors of the Federal Reserve System (Federal Reserve);

---

In addition, as a condition of membership, members must “agree that reports of examinations by local, State, or Federal agencies or institutions may be furnished by such authorities to the [FHL]Bank or the [FHFA] Director upon request.” 12 U.S.C. § 1442(b).

<sup>10</sup> 12 C.F.R. § 1271.15.

<sup>11</sup> Banks can charter at either the state or national level. The Office of the Comptroller of the Currency is the “primary regulator” of national banks. State-chartered banks are dually regulated by the appropriate state financial regulator and federal financial regulators. While state regulators serve as the “primary regulators” of state-chartered banks, if the bank is a member of the Federal Reserve System, or is owned by a bank-holding company, the Board of Governors of the Federal Reserve System also serves as the “primary federal regulator.” The Federal Deposit Insurance Corporation serves as the “principal federal regulator” of state-chartered banks that are not members of the Federal Reserve System. For more information, see Congressional Research Service, [Banking Law: An Overview of Federal Preemption in the Dual Banking System](#) (R45081) (Jan. 23, 2018).

<sup>12</sup> For more information on financial regulation in the United States, see Congressional Research Service, [Who Regulates Whom? An Overview of the U.S. Financial Regulatory Framework](#) (R44918) (updated Oct. 13, 2023).

- the Federal Deposit Insurance Corporation (FDIC);<sup>13</sup>
- the Department of the Treasury, including the Office of the Comptroller of the Currency (OCC); and
- the NCUA.<sup>14</sup>

The FHLBanks also receive supervisory information from state financial regulators.<sup>15</sup>

As a matter of common practice, both federal and state regulators issue ROEs that communicate examination results to the institution’s boards of directors and senior management. ROEs contain non-public, confidential information that provides the FHLBanks insights into the regulator’s views and allow FHLBank management to more fully understand the financial condition, quality or risk management, and risk profile of their members. The reports also communicate a regulator’s examination ratings.<sup>16</sup>

ROEs may contain examination findings that address weaknesses in the institution’s risk management practices. Relevant guidance from the Federal Financial Institutions Examination Council instructs that ROEs should “document issues of supervisory concern or warranting corrective action prominently, including, noncompliance with laws or regulations [and] the status of compliance with outstanding enforcement actions . . . .”<sup>17</sup> The most serious examination findings require remediation by management and oversight by the institution’s board of directors. Additionally, FHFA’s DBR, which is responsible for supervising the FHLBank System, considers ROEs to be a primary source for the FHLBanks to identify fraud at member institutions. Regulators’ views of members’ management deficiencies are clearly relevant to a

---

<sup>13</sup> The FDIC’s regulatory authority also extends to commercial banks and savings institutions whose deposits are covered by FDIC deposit insurance.

<sup>14</sup> See 12 C.F.R. § 1271.15.

<sup>15</sup> Each state has at least one banking or financial services regulatory agency that, similar to federal financial regulators, charter, license, examine, and supervise banks within their respective states to ensure that they operate in a safe and sound manner and follow consumer protection laws. For more information, see Conference of State Banking Supervisors (CSBS), [State Financial Regulation 101](#) (accessed June 4, 2025). For a list of state financial regulators, see CSBS, [Contact Your State Bank Agency](#) (accessed June 4, 2025).

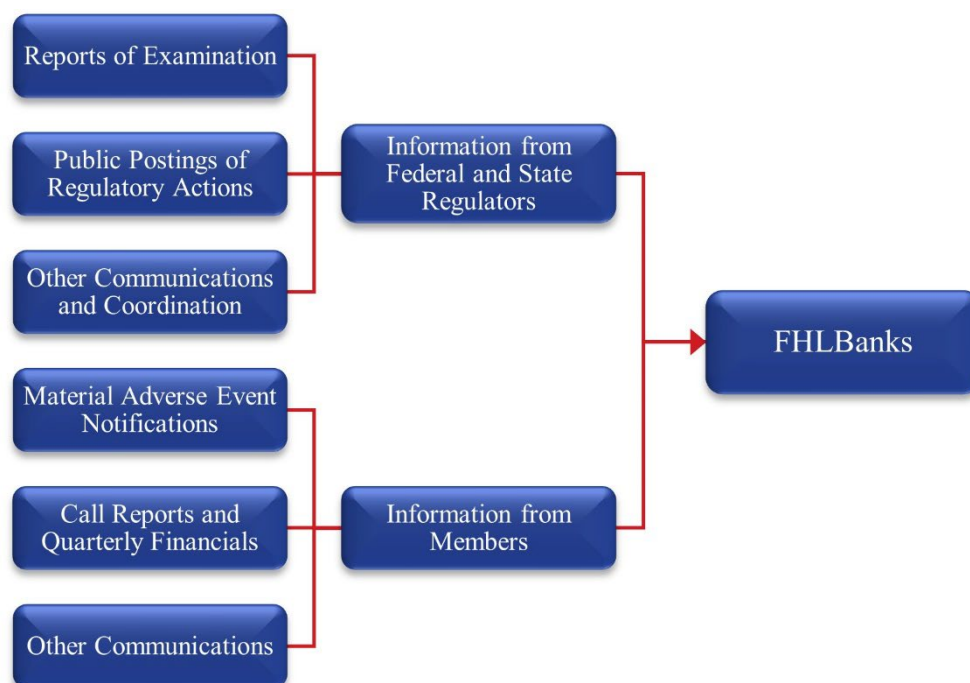
<sup>16</sup> Federal and State examinations use the Uniform Financial Institution Ratings System, also known as the “CAMELS” ratings system, which consists of an overall “composite” rating and six “component” ratings: Capital adequacy, Aset quality, Management capability, Earnings quantity and quality, Liquidity adequacy, and Sensitivity to market risk. See, e.g., FDIC, [Risk Management Manual of Examination Policies](#), Section 1.1, at 23-24 (Mar. 26, 2025).

<sup>17</sup> See Federal Financial Institutions Examination Council, [FFIEC Members Adopt Policy Statement on the Report of Examination](#) at 2 (Mar. 6, 2019). The Federal Financial Institutions Examination Council is an interagency body comprised of five federal financial regulators and a state financial regulator liaison committee. Its purpose is to promote consistency in examination activities among the federal regulators.

FHLBank’s decision on whether to deny or limit requests for advances due to “financial or managerial deficiencies,” as contemplated in 12 C.F.R. § 1266.4(a)(1)(iv).

The information contained in ROEs supplements financial and other information about members that is available to the FHLBanks through other sources, including financial reports filed by members. These financial reports present the institutions’ income statements and balance sheets. Figure 1, below, illustrates the types of information available to the FHLBanks from various sources.

**FIGURE 1. FHLBANKS OBTAIN AND REVIEW INFORMATION ABOUT THEIR MEMBERS, SAMPLED SOURCES**



Source: Statements and documentation provided by DBR and the FHLBanks.

### **FHFA Requires the FHLBanks to Obtain and Review “Regulatory Examination Reports” of Applicants for Membership and Expects the FHLBanks to Review Such Reports in Conjunction with Their Ongoing Monitoring of Member Creditworthiness**

When considering an application for membership, an FHLBank must obtain and review the applicant’s “most recent available regulatory examination report,” among other items.<sup>18</sup> FHFA

<sup>18</sup> See generally 12 C.F.R. § 1263.11(a). The stated purpose of this review is for the FHLBank to determine whether the applicant’s financial condition “is such that advances may be safely made to it.” See 12 C.F.R. § 1263.11(a), and the relevant cross-reference to 12 C.F.R. § 1263.6(a)(4).

regulation requires (1) the FHLBank to prepare and review a summary of the applicant’s “strengths and weaknesses as cited in the regulatory examination report” and (2) a summary—prepared by either the FHLBank or the applicant—of “actions taken by the applicant to respond to examination weaknesses.”<sup>19</sup>

The regulations further require the FHLBank to obtain and review a description (prepared by the FHLBank or the applicant) “of any outstanding enforcement actions against the applicant, responses by the applicant, . . . and verbal or written indications, if available, from the appropriate regulator of how the applicant is complying with the terms of the enforcement action.”<sup>20</sup> In assessing an application, the FHLBank must determine if “the character of its management is consistent with sound and economical home financing.”<sup>21</sup> To meet the FHFA requirements for approval of an application, including the assessment of the character of the applicant’s management, access to ROE and other reports generated by federal and state regulators is essential.

Following approval of an applicant, FHFA has established a supervisory expectation, through advisory bulletin guidance, that FHLBanks obtain ROEs and attendant enforcement actions on an ongoing basis as part of their monitoring of members’ creditworthiness.<sup>22</sup> DBR officials told us that review of ROEs should always be incorporated in the FHLBanks’ credit risk assessments and the FHLBanks should follow up on troublesome findings contained within the ROEs. They also expect that the FHLBanks should use the supervisory information contained in ROEs to monitor a member’s creditworthiness and financial condition.

### **During the Spring of 2023, FHFA and the FHLBanks Experienced Challenges Obtaining Supervisory Information from Counterpart Financial Regulators of Failing Institutions**

During the Spring of 2023, three member banks failed, and another voluntarily liquidated, resulting in the largest U.S. bank failures since the 2008 financial crisis. In the months preceding the failures and liquidation, each of these banks substantially increased FHLBank advances to offset deposit withdrawals. The FHLBanks continued to make advances to two of these institutions until shortly before they failed in March 2023.<sup>23</sup>

---

<sup>19</sup> 12 C.F.R. § 1263.11(a)(3).

<sup>20</sup> 12 C.F.R. § 1263.11(a)(4).

<sup>21</sup> 12 C.F.R. § 1263.6(a)(5).

<sup>22</sup> AB 2024-03, at 7.

<sup>23</sup> For more information on the FHLBanks’ lending to the failed member banks, see Government Accountability Office, [Federal Home Loan Banks: Actions Related to the Spring 2023 Bank Failures](#), GAO-24-106957 (Mar. 8, 2024).

In a 2023 report, FHFA identified the need for enhanced coordination among the FHLBanks, their members’ federal and state primary regulators, and the Federal Reserve’s discount window, as a main lesson of the Spring 2023 bank failures.<sup>24</sup> FHFA specifically concluded that such coordination is “critical to ensure the FHLBanks are fully apprised of members’ financial standing and that all liquidity needs can be met during times of market stress.”<sup>25</sup>

In some cases during the bank failures, the federal financial regulators of the troubled institutions did not timely share information with the FHLBanks and FHFA or provided incomplete information about those institutions.<sup>26</sup> As we described in a prior evaluation report,<sup>27</sup> in one instance, FHFA contacted the Federal Reserve and the FDIC regarding an FHLBank’s lending to a failing member.<sup>28</sup> Although the FDIC had received a recovery plan from the member that involved obtaining additional longer term advances from its FHLBank, that plan was not shared with FHFA. Later, DBR records indicated that the FDIC continued to suggest to the FHLBank that it was acceptable to lend to that same member a few days prior to its failure.

## OBJECTIVES AND SCOPE .....

In this evaluation, we assessed whether the FHLBanks received relevant supervisory information from their members’ primary regulators necessary to manage their credit risk exposures to troubled and failing members. We reviewed the legal, regulatory, and operational framework by which federal and state financial regulators share supervisory information about FHLBank System members with FHFA and the FHLBanks. We also reviewed whether members notified the FHLBanks of regulatory actions against the members and materially adverse changes that affected the member’s financial condition or operations. Our review period covered November 1, 2022, to September 30, 2024. For details on our methodology, see Appendix II.

---

<sup>24</sup> For information on the Federal Reserve’s discount window in relation to FHLBank members, see FHLBank System at 100 Report, at 22 and 109.

<sup>25</sup> FHLBank System at 100 Report, at 111.

<sup>26</sup> FHFA has defined “troubled members” as “a member that exhibits poor or unsatisfactory financial performance or condition and is susceptible to further deterioration, and/or exhibits severe weaknesses and/or unsafe and unsound practices or conditions that threaten the viability of the entity.” See AB 2024-03, at 1.

<sup>27</sup> See generally, FHFA OIG, [FHFA Could Enhance Its Supervision of the Federal Home Loan Banks by Incorporating Lessons Learned from the Spring 2023 Bank Failures](#) (EVL-2024-03) (Aug. 19, 2024).

<sup>28</sup> FHFA separately intervened with the FHLBank to directly oversee advance lending to certain troubled members and reinforce with the board of directors and management that responsible credit risk management requires the FHLBank to base lending decisions on the member’s ability to repay advances, rather than rely predominantly on pledged collateral as a means of repayment.

## RESULTS .....

We selected a sample of 16 FHLBank members that experienced financial stress or had been subject to regulatory enforcement actions during our review period. In addition to the four failed or dissolved institutions from Spring 2023, the sample included two member banks that subsequently failed. Our sample covered 7 of the 11 FHLBanks, and the results of our review, which we describe below, generally relate only to those FHLBanks and members.

### **Communication Between FHFA Supervisory Personnel and Federal Regulatory Agencies Improved After the Spring 2023 Bank Failures, but Coordination Initiatives Are on Hold**

Before the member bank failures in the Spring of 2023, DBR leadership met regularly with their points of contact at the federal banking regulators to discuss general supervisory issues. According to a DBR executive, they did not typically discuss troubled members with their counterparts. DBR's coordination with counterparts at these agencies increased in late 2022 and early 2023, as DBR personnel assessed FHLBank System members' potential exposure to cryptocurrency firms in the wake of a large cryptocurrency firm's bankruptcy. That level of coordination, however, degraded once the bank failures began to unfold in March 2023. As described by the DBR Deputy Director, following the onset of the bank failures, coordination among FHFA and other financial regulators became complex, reactive, and disorderly.

We reviewed emails and meeting summaries from after the Spring of 2023 that evidenced coordination between DBR and federal financial regulators concerning more recent troubled member scenarios. For example, DBR participated in multiple meetings between the FHLBanks and members' financial regulators about troubled members. A DBR executive who participated in those meetings told us that DBR benefited from learning the regulators' concerns and observing their discussion with FHLBank officials firsthand.

The same DBR executive informed us that, as a result of the discussions and coordination that have occurred since the Spring 2023 events, FHFA and the other federal regulators now better understand each other's perspectives and positions. Specifically, the other financial regulators have developed a better understanding that the FHLBanks must consider the creditworthiness of their members (i.e., their ability to repay advances) when making lending decisions. The Deputy Director of DBR reinforced that the flow of information had improved, and he has communicated more frequently with his peers. For example, federal financial regulators informed FHFA when a member's failure was imminent on two occasions after Spring 2023. A senior DBR official, however, noted that he would like the other regulators to consider FHFA involvement when it may be most useful, that is, before a member's failure is certain.

After the conclusion of our fieldwork, DBR issued internal protocols based on DBR's experiences from the Spring of 2023 and thereafter, and in response to a recommendation in our last report. Those protocols guide DBR personnel on when and with whom they should engage at the other regulators to discuss troubled members.

Given recent and ongoing staffing and leadership changes across FHFA and the other federal financial regulators, it will take time for DBR to establish contact with new counterparts to further develop an information sharing process. DBR executives explained that communications with the other regulators had diminished during the first quarter of 2025 as a result of personnel changes within the relevant agencies. A DBR executive advised us that certain inter-agency initiatives to update relevant memoranda of understanding and conduct tabletop exercises among federal regulators have been postponed. DBR explained that the purpose of the tabletop exercises is to inform DBR's internal protocols and to further a common understanding of the respective agencies' approaches and priorities during a financial crisis.

See Appendix I for an outline of information sharing channels among FHFA, the FHLBanks, their members, and their members' financial regulators.

### **Although FHLBank Management Regularly Communicated with Their Members' Financial Regulators, Several FHLBanks Did Not Receive Timely Supervisory Information Regarding Troubled Members**

We found that after the Spring 2023 failures, the majority of FHLBanks held tabletop exercises or met with federal regulators to address procedures related to troubled member scenarios. As noted, we saw evidence of regular communications between the FHLBanks and the members' federal and state financial regulators in most sampled cases since Spring 2023; however, we also noted instances during this period in which the FHLBanks' decision on whether to extend advances to members would likely have been better informed had they been aware of up-to-date supervisory information.

In several instances after Spring 2023, FHLBanks did not receive the requested supervisory information, received redacted information, or were not notified of material adverse changes by troubled members and approved advance requests from those members.<sup>29</sup> For example, an FHLBank made quarterly requests to a federal regulator for ROEs and information about enforcement actions related to a member with a deteriorating financial condition. The federal regulator did not provide the requested supervisory information until several weeks after the

---

<sup>29</sup> In addition to communication issues, DBR found in one case that an FHLBank did not utilize available supervisory information in a timely manner, which delayed the FHLBank in placing credit restrictions on the member. The member requested and obtained significant advances shortly before the FHLBank imposed the restrictions.



FHLBank approved hundreds of millions in advances to the member. The member's subsequent inability to repay the advances and other debts contributed to its eventual failure.<sup>30</sup>

### **Finding 1: Several FHLBanks Received Incomplete Supervisory Information from Federal Regulators**

As previously discussed, ROEs contain supervisory information that could identify managerial and other deficiencies that are relevant to an FHLBank's determination of whether to limit or deny the member's request for advances. The FHLBanks are entitled by law to obtain ROEs from the financial regulator, and FHFA regulation requires each FHLBank to prepare a summary of an applicant's strengths and weaknesses "as cited in the regulatory examination report." However, we observed challenges to certain FHLBanks' ability to obtain supervisory information from federal regulators. Specifically, in certain cases, the regulators provided redacted ROEs. In another case after Spring 2023, the FDIC did not provide relevant supervisory information to the requesting FHLBank regarding a troubled member that subsequently failed.

#### ***Two FHLBanks Received Redacted ROEs from the Members' Federal Regulators***

In April 2024, an FHLBank approved an application for membership after reviewing an ROE that was heavily redacted by the Federal Reserve. The FHLBank did not challenge the redactions before completing its application review. DBR subsequently found that the FHLBank violated the applicable regulation, in part, because the redactions hindered the FHLBank's ability to confirm that the applicant's financial condition was such that advances may be safely made to it.<sup>31</sup> DBR also noted that redacted ROEs may prevent FHLBanks from learning of formal or informal enforcement actions against applicants and from verifying the accuracy of their attestations made during the application process regarding the character of management. In this case, the FHLBank did not seek an unredacted copy of the ROE until it was directed to do so by DBR.

We observed that another FHLBank routinely accepted redacted ROEs from the NCUA, including a redacted ROE issued to a troubled member in our sample. When we brought this practice to the attention of a DBR executive, he acknowledged that he was unaware of this

---

<sup>30</sup> We do not suggest or imply that the FHLBank did not have access to adequate financial information on which to base its decision to extend advances to the failing member. DBR later concluded, however that the FHLBank did not incorporate available information about the member's deteriorating condition into its credit risk management processes and it did not evaluate the member's ability to repay the advances prior to making its decision to lend to the member. When assessing a member's deteriorating financial condition, a FHLBank can decide to extend advances with increased collateral restrictions and shorter credit terms.

<sup>31</sup> The relevant section of the regulation is 12 C.F.R. § 1263.6(a)(4).



practice. The Deputy Director told us that DBR would follow up with the NCUA and with the FHLBank.

FHFA Expects FHLBanks to Receive and Review Unredacted ROEs, and DBR Plans to Work with Other Regulators to Address FHLBanks Access to Unredacted ROEs

FHFA’s membership regulation does not directly address the question of whether an FHLBank may rely on a redacted ROE when processing applications for membership. In response to our inquiry on the topic, FHFA’s Office of the General Counsel (OGC) advised us that the most reasonable reading of the regulation is that FHFA “requires an FHLBank to review the report in its entirety, with no redactions – or at least no substantive redactions.” OGC also emphasized the regulatory language that the FHLBank must “review the applicant’s strengths and weaknesses *as cited in the report*” (emphasis added).<sup>32</sup> Separately, DBR responded that the membership regulation “implies that the full ROE would be provided, or in the very least one with minor redactions (i.e., redactions that would not inhibit a reader’s understanding of substantive comments, issues, and conclusions).”

DBR told us that it expects the FHLBanks to request and receive unredacted ROEs. Relevant DBR advisory bulletin guidance on member credit risk management, however, does not specifically address redacted ROEs. Nevertheless, if an FHLBank receives a substantively redacted ROE, then DBR’s expectation is that the FHLBank should follow up with the regulator to obtain an unredacted copy. The Deputy Director of DBR confirmed to us that this expectation also applies to ROEs obtained by an FHLBank for the purpose of conducting ongoing monitoring of member creditworthiness.

It is unclear how common the practice of accepting redacted reports of examination is within the FHLBank System. As described above, two FHLBanks have received redacted ROEs. DBR assessed whether a third FHLBank received redacted ROEs for member applicants and found no examples. DBR generally reviewed ROE-related practices at five additional FHLBanks in recent examinations, without specifically assessing, or otherwise observing, the receipt of redacted ROEs. The Deputy Director advised us that DBR will continue to work with the other regulators regarding redacted ROEs, but that it is a difficult topic to navigate, and other regulators may be reluctant to share sensitive supervisory information.

According to DBR, an FHLBank’s inability to review relevant supervisory information in ROEs may impede the timely and accurate assessment of a member’s ability to repay, and result in inadequate or incomplete assessments of a member’s creditworthiness. When redacted content is material to the determination of whether a member has financial or managerial deficiencies that bear upon the member’s creditworthiness, including fraudulent activity, the FHLBank’s ability to

---

<sup>32</sup> See 12 C.F.R. § 1263.11(a)(3).

exercise its discretion to limit or deny advances is impaired. In light of DBR’s assessment, we believe that FHFA should clearly communicate the Agency’s expectation that the FHLBanks should consistently request and receive unredacted ROEs, subject to narrow exceptions where specific, well-defined considerations warrant limited redactions.<sup>33</sup>

### ***Access to Supervisory Information from Federal Regulators Other Than Reports of Examination***

In addition to ROEs, federal financial regulators may issue other forms of reports, such as “reports of visitation,” that communicate changes in a bank’s examination rating and supervisory criticisms.<sup>34</sup> An FHLBank informed us that it was unable to obtain a report of visitation from the FDIC that contained relevant supervisory information regarding a failing member. The FDIC and state authorities had identified severe concerns during the visitation and downgraded the member’s examination composite rating. Although the FHLBank sent monthly requests to the FDIC for the member’s ROEs, the FDIC did not provide a copy of the report of visitation, nor did it advise the FHLBank of the visitation, its findings, or the examination rating downgrade.

The FHLBank continued to approve advances to the member, and learned of the report only after the FDIC publicly cited the findings of the report as the basis for an enforcement action against the member several months later. The FHLBank sent a specific request for the report of visitation to the FDIC, but the FDIC denied the request several days later, after the member had failed. In response to these events, the FHLBank amended its monthly ROE requests to primary regulators to include a request for supervisory communications to all members, including reports of visitation. According to DBR, knowledge of the results of that visitation likely would have influenced the FHLBank’s lending decisions to that member.<sup>35</sup>

### **According to FHFA, Statutory and Regulatory Information Sharing Provisions Cover Relevant Interim Supervisory Communications**

FHFA OGC advised us that the report of visitation likely would fall within FHFA’s broad regulatory definition of “confidential regulatory information,” which specifies that the term is

---

<sup>33</sup> DBR indicated that these narrow exceptions would include disclosure of personally identifiable information and certain information pertaining to pending litigation.

<sup>34</sup> According to the FDIC, visitations are conducted to review, among other things: areas of heightened risk, an institution’s progress on correcting deficiencies, or its compliance with an enforcement action. Examiners can assign new composite and component ratings as a result of visitations, depending on the scope, purpose, and sufficiency of their review. *See* FDIC, Risk Management Manual of Examination Policies, [Section 1.1 Basic Examination Concept and Guidelines](#), at 1.1-7 (Mar. 2022).

<sup>35</sup> DBR issued a finding to the relevant FHLBank that criticized its credit risk management practices in handling the failure of the relevant member. However, the finding did not address the request and review of supervisory communications and, instead, focused on the member’s failure to notify the FHLBank of the report of visitation and composite examination rating downgrade before requesting, and receiving, repeated advances before its failure.

not limited to examination reports. FHFA OGC also stated that “it would be reasonable to interpret any report including a [examination] composite rating change to fall within the definition of ‘regulatory examination report’” in the membership application regulation. According to DBR, reports of visitation and other supervisory communications that contain examination rating changes would be relevant supervisory information that a regulator would need to provide to an FHLBank upon request, pursuant to the same statutory provision that entitles the FHLBanks to obtain copies of ROEs.<sup>36</sup>

DBR told us that gaps in access to such information can be addressed through DBR’s regular examination process. The Deputy Director of DBR pointed out that the FHLBanks should word their information requests to regulators to encompass both ROEs and other relevant supervisory communications that contain examination ratings changes.

## Recommendations

We recommend that DBR:

1. Assess the extent to which FHLBanks are relying on redacted ROEs when reviewing membership applications or performing ongoing monitoring.
2. Clarify and reinforce DBR’s expectation to the FHLBanks that they should request and receive from federal and state regulators ROEs that are not substantively redacted, and that other relevant supervisory reports should be collected when necessary.
3. Conduct outreach to federal financial regulators to reinforce the need for compliance with 12 U.S.C. § 1442(a)(1), which requires their production of reports, records, and information relating to the condition of any member of any FHLBank upon request by an FHLBank. As part of this outreach, make clear that such materials extend beyond ROEs, and that materials produced in response to an FHLBank requests should be provided without substantive redactions.

## Finding 2: Some States Do Not Share Reports of Examination with the FHLBanks

There are circumstances in which state financial regulators are the lead agency in an examination and issue the ROEs to state-chartered members. The FDIC and Federal Reserve require that insured institutions receive an onsite examination every 12 months, or every 18 months under certain conditions. The regulator conducting the examinations may alternate between these federal regulators and the appropriate state regulator if an institution maintains a favorable examination rating and has less than \$100 billion in assets (for banks supervised by the Federal

---

<sup>36</sup> The relevant text of the statute, for purpose of our evaluation, states that the federal financial regulators “shall make available. . . upon request . . . such *reports*, records, and information relating to the condition of any member of any Federal Home Loan Bank . . .” (emphasis added) 12 U.S.C. § 1442(a)(1).

Reserve). When it is the state regulator's turn in alternating examinations, or the state is the lead in a joint examination, the result is a state-issued ROE.

The Deputy Director of DBR informed us that FHFA's requirements and expectations for obtaining and reviewing ROEs apply to ROEs issued by state financial regulators. We learned during our evaluation that several states prohibit the state financial regulator from sharing such ROEs with the FHLBanks. We also learned that one FHLBank has not attempted to obtain an information sharing agreement with a state financial regulator so that it could receive copies of the state ROEs and other reports. DBR is aware of this challenge. Recent DBR examinations found that four FHLBanks lacked access to state-issued ROEs and concluded that their inability to obtain those ROEs created significant credit risk visibility gaps and risked admittance of an applicant with significant issues that could harm a FHLBank or other members. DBR confirmed that it has not assessed the potential impact of this limitation, if any, across the FHLBank system. However, DBR executives told us they were not aware of any instance in which the FHLBanks were hindered in dealing with failing or troubled members due to lack of access to state-issued ROEs.

### ***Seven States in Our Sample Do Not Share ROEs with the FHLBanks***

As of year-end 2024, DBR had assessed the ROE review process at six of the FHLBanks and found that four of these FHLBanks cannot access state-issued ROEs from certain states in their respective districts. Separately, we conducted a review of the 22 states within those four FHLBank districts and found that seven of those states (approximately one-third) did not share state-issued ROEs with the FHLBanks.<sup>37</sup>

Members receive a copy of ROEs issued by their federal and state financial regulators. However, these regulators prohibit the members from sharing ROEs with third parties, including the FHLBanks. Consequently, FHLBanks typically enter into information sharing agreements or other arrangements to obtain ROEs directly from federal and state financial regulators.<sup>38</sup> However, state laws and practices vary by jurisdiction, and some states have statutes that prohibit state financial regulators from sharing ROEs with FHLBanks. One FHLBank has not attempted to obtain an information sharing agreement with a state in its district but told us that it plans to

---

<sup>37</sup> The status of one additional state in our sample remains uncertain. We observed two states that had information sharing agreements in place with a FHLBank, but FHLBank officials, including a signatory to one of the agreements, had forgotten that the agreements existed. We confirmed that one of the two states shares ROEs with the FHLBank, but the status of information sharing with the second state is uncertain.

<sup>38</sup> These confidentiality agreements do not prevent a FHLBank from disclosing confidential regulatory information in its possession to FHFA "whenever disclosure is necessary to accomplish FHFA's supervision of Bank membership applications or Bank director eligibility issues, or disclosing any confidential regulatory information in its possession if such disclosure is made pursuant to an audit conducted pursuant to § 1271.19 or section 20 of the [FHL]Bank Act (12 U.S.C. § 1440)." 12 C.F.R. § 1271.21(d)(1).

pursue one in the future. DBR opined that some of the FHLBanks did not appreciate the significance of the issue.

***The Inability to Obtain and Review State-Issued ROEs Could Affect the FHLBanks' Ability to Exercise their Discretion to Limit or Deny Advances in Accordance with FHFA Regulation***

One ramification of some FHLBanks' inability to obtain state-issued ROEs is that the information the FHLBanks have on hand could become stale and outdated. When regulators from the seven states that do not share ROEs with the FHLBanks are the "lead" in the most recently completed examination of a member, the most current ROEs available to the FHLBanks are those generated in the last examination conducted by the federal regulator as the "lead." Hence, as many as 18 months may pass before the FHLBank is able to obtain a "current" ROE from the federal regulator. In such cases, the information on which the FHLBank relies on to make advance decisions for these members could be outdated and potentially incomplete. The Deputy Director of DBR advised that this structure allows for circumstances in which an FHLBank may not be aware of a supervisory issue at a member that a state regulator has identified (e.g., managerial deficiencies).

DBR found that, in the absence of current state-issued ROEs, certain FHLBanks must assess the ongoing creditworthiness of members and make advance decisions without up-to-date regulatory insight and key supervisory information. The lack of access to state-regulators' ROEs may also negatively affect an FHLBank's ability to responsibly exercise its discretion to limit or deny advances pursuant to relevant regulation. The Deputy Director expressed concern that other information sources may not fully compensate for the absence of a current ROE.<sup>39</sup> The Deputy Director also advised us that ROEs are the FHLBanks' main source of information about fraud at a member. Hence, the lack of access to state-issued ROEs is likely to hinder the FHLBanks' ability to take appropriate action in response to incidents of fraud.

As previously discussed, FHFA regulation requires the FHLBanks to review the most recent ROE available for membership applicants. When certain states' regulators do not share their ROEs with the FHLBanks, the FHLBanks often have to rely on older, potentially outdated federal ROEs. During an examination, DBR found that one FHLBank repeatedly admitted member applicants without reviewing current ROEs. In one case, the FHLBank relied on a five-year-old federal ROE, because the more recent state-issued ROE was unavailable. The

---

<sup>39</sup> In our view, state restrictions on sharing ROEs would not restrict an FHLBank's ability to require an applicant's or a member's management to provide a summary of the actions taken by the applicant or member to respond to "examination weaknesses," as contemplated in 12 C.F.R. § 1263.11(a)(3). Although this provision applies at the point where a bank applies for membership in the FHLBank System, there is nothing to keep an FHLBank from requesting this information in circumstances where the state-issued ROE is unavailable.

FHLBank also admitted several members without receiving and reviewing either a federal or state-issued ROE.<sup>40</sup> DBR issued adverse examination findings based on these practices and advised the FHLBank that it risked admitting an applicant with significant issues that could harm the FHLBank or other members. DBR concluded that restrictions precluding state regulators from sharing supervisory information with the FHLBanks undermines the joint goal of federal and state regulators to promote safety and soundness in the system.

### ***DBR Has Not Yet Reviewed State-Issued ROE Access Across the FHLBank System***

DBR has addressed access to state-issued ROEs through the supervisory process at individual FHLBanks and has issued adverse examination findings when division management deemed such action necessary. DBR, however, has not conducted a systematic review to assess the potential impact of these restrictions on member credit risk management across the FHLBank System. The Deputy Director informed us that DBR examinations will continue to assess the extent to which the FHLBanks are unable to obtain state-issued ROEs.<sup>41</sup>

The Deputy Director advised us that DBR is exploring how to engage on this issue. He acknowledged the difficulty of resolving it due to factors outside of FHFA's and the FHLBanks' control. For example, in some cases, state legislation would be necessary to allow FHLBanks to receive state-issued ROEs. Both DBR and the FHLBanks have reached out to the Conference of State Bank Supervisors (CSBS) to obtain assistance with advocating for legislative change at the state level.<sup>42</sup> The Deputy Director noted that DBR's outreach with individual state supervisors had been "uneven" so far.

### **Recommendations**

We recommend that DBR:

4. Assess the extent to which restrictions on access to state-issued ROEs may hinder the FHLBanks in making fully informed decisions when evaluating applications for membership and when making determinations to limit or deny member requests for advances in accordance with applicable FHFA regulations.

---

<sup>40</sup> The FHLBank applied a regulatory "rebuttable presumption" when it admitted several members without reviewing their ROEs. See 12 C.F.R. § 1263.17(d) for more information on that authority. DBR found that the practice introduced weaknesses in the information about the applicants' financial condition that the FHLBank relied on when approving their applications.

<sup>41</sup> During its technical review of a draft of this report, DBR informed us that it would survey all the FHLBanks at the conclusion of the 2025 examination cycle.

<sup>42</sup> The CSBS is a national organization of financial regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. The organization advocates within the dual federal-state banking system, promotes coordination, and provides infrastructure for state financial regulators.



5. If applicable, continue to pursue outreach with the Conference of State Bank Supervisors and state regulators to assist FHLBanks in accessing state-issued ROEs.

### **Finding 3: The FHLBanks' Material Adverse Change Notification Process Does Not Appear to Function as Designed**

FHFA's supervisory position is that safe lending involves a sound credit risk management framework that incorporates relevant and timely information in the evaluation of member financial condition. The applicable advisory bulletin calls for members to explain "material adverse financial changes" that the member may not have previously disclosed at the time of an advance request.<sup>43</sup> In the advisory bulletin, FHFA stated its expectation that the FHLBanks should establish requirements for its members to inform the FHLBank about adverse changes in a timely manner.

Material adverse change notifications put the FHLBanks on notice of negative information about members' financial or operating condition that may not be reflected in recent financial statements but may be germane to the decision to approve requests for advances.<sup>44</sup> Most FHLBanks in our sample required members to notify them of regulatory actions taken against the member.

#### ***The FHLBanks in our Sample Received Only One Formal, Written Material Adverse Change Notification, But Other Communications with Members Occurred***

We reviewed a sample of 16 members that during the review period either experienced financial distress or were the subject of regulatory enforcement actions to determine whether the affected FHLBanks received adverse change notifications from those members. Based on the FHLBanks' responses to our inquiries, we cannot conclude that the notification requirements have been honored or enforced in accordance with the applicable agreements and policies. Our review covered members of 7 of the 11 FHLBanks; and, in each case, the member was required to submit notifications of material adverse changes under the terms of the governing advances agreements or member products policies.<sup>45</sup> During our review, however, we were provided with

---

<sup>43</sup> AB 2024-03, at 4. This includes information that may not have been disclosed in the member's most recent financial statements.

<sup>44</sup> The FHLBanks in our sample used differing but related terms for material adverse changes in their advances agreements and member product policies. For the sake of simplicity, we use the term "material adverse change" throughout this report. Most of the sampled FHLBanks generally defined material adverse changes as events that adversely affect the member's financial condition or operations, or those that significantly affect the value of the member's collateral.

<sup>45</sup> Under FHFA regulations, the FHLBanks must enter into a written advances agreement with each of their members that evidences the member's obligation to repay advances and all other indebtedness to the FHLBank. See 12 C.F.R. § 1266.2(b)(2). FHFA regulations also require the FHLBanks to maintain a "member products policy" that addresses the FHLBank's management of the products it offers to members, including secured advances. See 12 C.F.R. § 1239.30.

only one formal, written material adverse change notification. Notably, our sample included the four member banks that failed in the Spring of 2023.

Under an FHFA regulation, members must comply with FHLBank contractual requirements in connection with receiving advances, including the notification requirements. The regulation states, in pertinent part, that an FHLBank shall require any member to which an advance is made to enter into a primary and *unconditional obligation to repay such advance . . . according to the terms under which such advance was made . . .*” (emphasis added).<sup>46</sup> As such, when a member fails to provide a notification when required by the terms of the applicable advance agreement, the issuing FHLBank may exercise its contractual remedies.

Other communications with members may mitigate the lack of formal notifications if they effectively put the FHLBank on notice. Several FHLBanks in our review described other means by which their credit risk and member relations teams communicate with members about their financial condition. We reviewed six examples in which members disclosed regulatory actions or adverse changes in their financial condition in a form other than formal notification.<sup>47</sup> One of the FHLBanks told us that it obtained relevant information independent of a formal notification, including information from the members’ federal regulator and public sources.

### ***DBR Issued Examination Findings to Several FHLBanks Regarding Their Inadequate Enforcement of Material Adverse Change Notification Requirements***

Despite the FHLBanks’ engagement with members, DBR found cases in which the FHLBanks’ made advances to members that experienced material adverse changes but did not notify the FHLBank. One FHLBank extended advances to two troubled members without awareness of information that could have led to a restriction of credit terms. According to DBR examiners, the FHLBank’s advances agreement required the members to notify the FHLBank of such information, but they did not do so.

In 2023 and 2024, DBR issued examination findings to three FHLBanks that did not respond adequately to address the member’s failure to provide material adverse change notifications. The Deputy Director of DBR told us that he wants the FHLBanks to establish processes that reinforce to their members the notification requirements. DBR informed us in response to a draft of this report that it plans to complete a system-wide review of this issue by the end of the 2025 examination cycle. Examiners issued, or plan to issue, four additional findings to the FHLBanks in 2025. These findings generally require the FHLBanks to remind members of their reporting

---

<sup>46</sup> 12 C.F.R. § 1266.2(b)(1).

<sup>47</sup> For four other members, an FHLBank claimed that members had communicated with it through other means but provided no evidence of those communications. Additionally, an FHLBank informed us that it received no notifications from its three failed members in our sample, and the FHLBank provided no additional information about its communications with those members.



responsibilities, develop procedures for tracking and ensuring timely reporting, and determine consequences for members' non-compliance with reporting requirements.

One of the affected FHLBanks revised its internal procedures and member communications to re-emphasize members' obligation to notify the FHLBank of material adverse changes to their financial condition. In response to an examination finding, the FHLBank developed procedures for annually reminding members about their notification obligations and identifying and responding to member violations of notification requirements. The FHLBank also produced a member-facing webpage that details the reporting process and requirements for such notifications.

Material adverse change notifications are a tool to alert the FHLBanks of material changes in a member's financial condition that could bear on the member's creditworthiness and an FHLBank's decision to limit or deny a request for advances. The FHLBanks have incorporated requirements into the contractual agreements for advances, and members are required to comply with those contracts in connection with taking advances under FHFA regulation. In our view, such requirements lose their value when they are not complied with or enforced, and it would benefit FHFA to remind the FHLBanks of their responsibilities in this regard.

### **Recommendation**

We recommend that DBR:

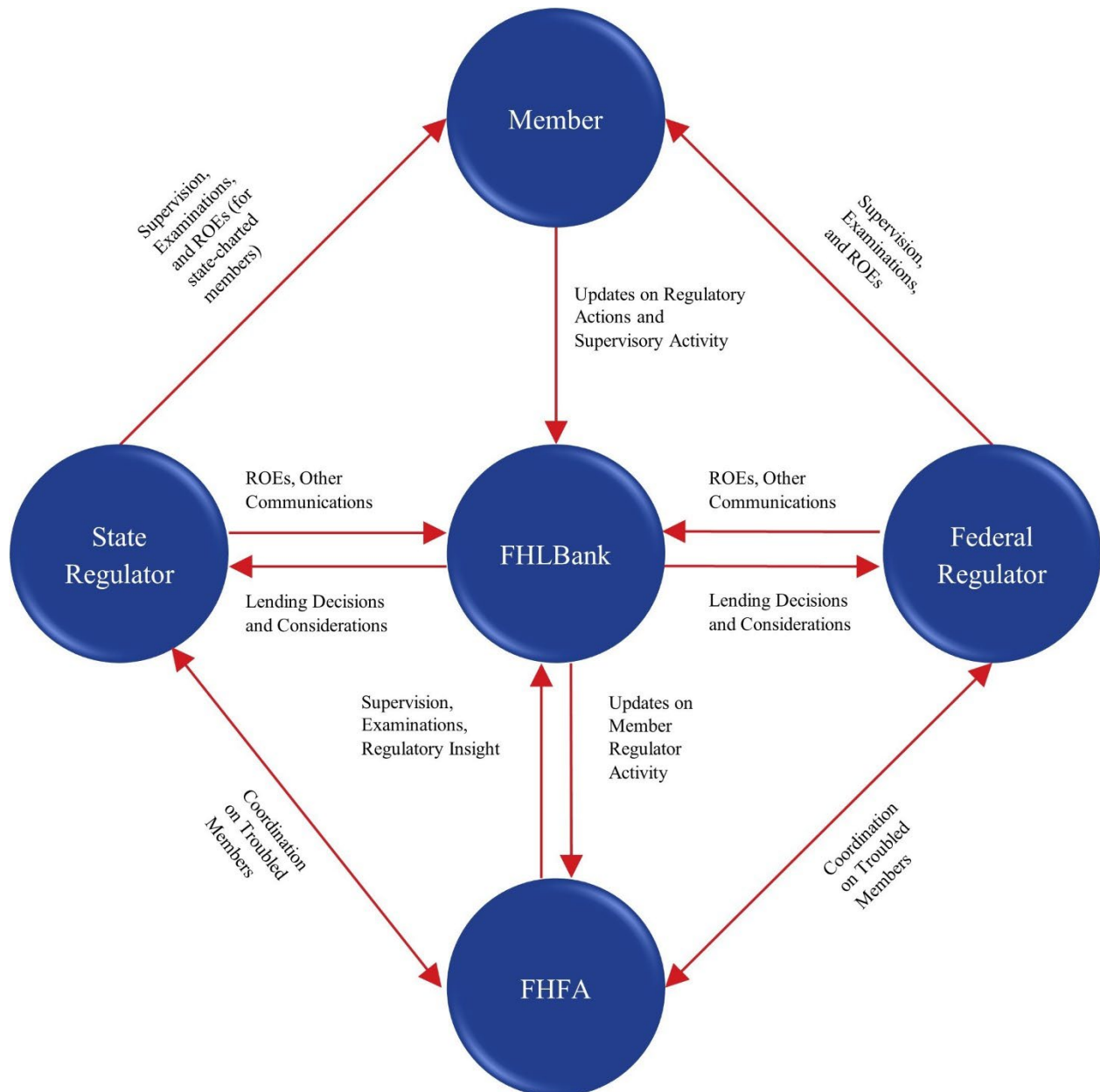
6. Complete its assessment of the extent of weaknesses in the FHLBanks' enforcement of members' material adverse change notification requirements, and provide guidance to FHLBanks on best practices, such as issuing periodic reminders of notification requirements, to help ensure members' compliance with the FHLBanks' contractual requirements.

## **FHFA COMMENTS AND OIG EVALUATION.....**

We provided FHFA management an opportunity to review and provide technical comments to a draft of this evaluation report. We considered those comments in finalizing this report. FHFA management also provided a written response, which we included in Appendix III. In its management response, FHFA agreed with our recommendations. We consider FHFA's planned corrective actions responsive to our recommendations. The recommendations will remain open until we confirm that corrective actions have been implemented.

## APPENDIX I: FLOW OF RELEVANT SUPERVISORY INFORMATION .....

This diagram shows the structure and flow of supervisory information among FHFA, the FHLBanks, their members, and their members' financial regulators.



Source: Relevant statutes and regulations, as well as documentation and statements from FHFA, the FHLBanks, their members, and their members' financial regulators.

## APPENDIX II: METHODOLOGY.....

We conducted this evaluation to assess whether the FHLBanks received relevant supervisory information from their members' financial regulators to manage their relationship with troubled and failing members. We sought to establish an understanding of the legal, regulatory, and operational framework by which federal and state regulators share supervisory information about FHLBank System members with FHFA and the FHLBanks. We also sought to review member notifications to the FHLBanks of regulatory actions against the members and materially adverse changes that affected their financial condition or operations. Our review period covered November 1, 2022, to September 30, 2024.

We identified discussion of 50 FHLBank members that were troubled or that attracted supervisory or FHLBank attention. To meet our objectives, we selected a judgmental sample of 16 members from those we identified, for our analysis of FHLBank communications with members' federal and state financial regulators concerning troubled members, based on our review of DBR's internal reports and DBR's examination findings and workpapers from 2023 and 2024. We selected our sample to include 4 members that failed in Spring 2023, 2 members that failed later in 2023, and 10 members that represented multiple FHLBanks and showed indications of regulatory scrutiny, or a likelihood of such scrutiny based on their financial concerns. For the members in our sample, we obtained and reviewed documentation of meetings and communications between the FHLBanks and FHFA and the members' federal and state financial regulators, regarding the member's creditworthiness or financial or managerial deficiencies that occurred during the review period.

We obtained and reviewed the advances agreements of 18 members (the 16 in our sample and 2 other pertinent cases) across 8 FHLBanks to see if they placed explicit obligations on the member to adhere to FHLBank policies or notify the FHLBank of material adverse changes, events of default, and regulatory actions. We reviewed the relevant internal policies and member-facing documentation across the eight FHLBanks to determine if they imposed similar notification requirements on the sampled members. We requested any relevant notifications submitted by the members in our sample pursuant to the requirements in the agreements and policies.

As of year-end 2024, DBR had assessed the ROE review process at 6 of the 11 FHLBanks and found that 4 FHLBanks cannot access state-issued ROEs from certain states in their respective districts. Separately, we conducted a review of the 22 states covered by those 4 FHLBank districts. We reviewed public regulatory examination guidance to inform our analysis of ROEs. We obtained and reviewed all memoranda of understanding and information sharing agreements between seven FHLBanks and their member's federal and state financial regulators.

We obtained and reviewed DBR examination files from the 2023-2024 examination cycles for all 11 FHLBanks. This included the examination findings, finding remediation memos, work programs, and relevant workpapers related to Advances and Collateral and Credit Risk Management. We also reviewed a sample of internal policies across three FHLBanks for the use of supervisory information in Credit Risk Management.

We also reviewed relevant provisions of the Federal Home Loan Bank Act, FHFA regulations, and in coordination with FHFA-OIG's Office of General Counsel, a sample of state statutes pertaining to the accessibility of supervisory information. We also reviewed FHFA and DBR guidance and standards in effect during our review period that were relevant to the examination of supervisory information. This included:

- FHFA, *AB 2024-03: Member Credit Risk Management* (Sep. 27, 2024) and
- FHFA, *Supervisory Letter: FHLBank Member Credit* (Sept. 20, 2023).

We obtained and reviewed FHFA's and the sampled FHLBanks' information sharing agreements with financial regulators. We reviewed Government Accountability Office, Congressional Research Service, FHFA, FDIC, FDIC Office of Inspector General, Federal Financial Institutions Examination Council, OCC, Federal Reserve, Office of Inspector General for the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau, state regulator, and other reports related to the sharing of supervisory information.

To supplement our review of the Agency's written record, we interviewed and corresponded with DBR officials, including the Deputy Director and the then-Senior Associate Director, and FHFA OGC. Finally, we provided FHFA with a draft of this report for its review and comment.

This evaluation was conducted between October 2024 and April 2025 under the authority of the Inspector General Act and in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation* (December 2020).

## **APPENDIX III: FHFA MANAGEMENT RESPONSE.....**

This page intentionally blank. See the following page(s).



## Federal Housing Finance Agency

### MEMORANDUM

TO: Kyle Roberts, Deputy Inspector General for Evaluations

FROM: Joshua Stallings, Deputy Director, Division of FHLBank Regulation **JOSHUA STALLINGS**

SUBJECT: Evaluation Report: *FHFA and FHLBank Coordination with Regulators Improved After the Spring 2023 Bank Failures, but Several FHLBanks Faced Challenges Obtaining Timely Supervisory Information*

DATE: September 10, 2025

Digitally signed by  
JOSHUA STALLINGS  
Date: 2025.09.10  
17:18:13 -04'00'

---

Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report. The objective of OIG's evaluation was to assess the current legal, regulatory, and operational framework that applies to the sharing of federal and state financial regulators' relevant supervisory information about FHLBank System members with FHFA and the FHLBanks.

While the report identified that coordination with peer financial regulators has improved since the Spring 2023 bank failures, it included three findings related to FHLBanks' lack of access to supervisory information about their members and receipt of adverse event notifications. The report offered six recommendations on those issues. As discussed throughout the report, the Agency has begun incorporating these recommendations into its supervisory processes over the last several years. The Agency appreciates the additional attention from OIG on these issues and its impact in highlighting the importance of these shared priorities. Accordingly, the Agency agrees with the six recommendations.

**Recommendation 1:** *Assess the extent to which FHLBanks are relying on redacted ROEs when reviewing membership applications or performing ongoing monitoring.*

**Management Response:** FHFA agrees with the recommendation. By September 15, 2026, the Division of FHLBank Regulation (DBR) will complete its assessment of the extent to which the FHLBanks rely on redacted ROEs when reviewing membership applications or performing ongoing monitoring.

**Recommendation 2:** *Clarify and reinforce DBR's expectation to the FHLBanks that they should request and receive from federal and state regulators ROEs that are not substantively redacted, and that other relevant supervisory reports should be collected when necessary.*

**Management Response:** FHFA agrees with the recommendation. By September 15, 2026, DBR will clarify and reinforce its expectation to the FHLBanks that they should request and receive ROEs from federal and state regulators that are not substantively redacted and that other relevant supervisory reports should be collected when necessary.

**Recommendation 3:** *Conduct outreach to federal financial regulators to reinforce the need for compliance with 12 U.S.C. § 1442(a)(1), which requires their production of reports, records, and information relating to the condition of any member of any FHLBank upon request by a FHLBank. As part of this outreach, make clear that such materials extend beyond ROEs, and that materials produced in response to a FHLBank requests should be provided without substantive redactions.*

**Management Response:** FHFA agrees with the recommendation. By September 15, 2026, the Agency will conduct outreach to federal financial regulators to reinforce the need for compliance with 12 U.S.C. § 1442(a)(1), including their statutory duty to make available reports, records and information relating to the condition of any member of any FHLBank upon request by a FHLBank.

**Recommendation 4:** *Assess the extent to which restrictions on access to state-issued ROEs may hinder the FHLBanks in making fully informed decisions when evaluating applications for membership and when making determinations to limit or deny member requests for advances in accordance with applicable FHFA regulations.*

**Management Response:** FHFA agrees with the recommendation. By December 31, 2026, DBR will complete an assessment of the extent to which the FHLBanks' access to supervisory information issued by members' state regulators (which are not covered by the requirements of 12 U.S.C. § 1442(a)(1)) is limited due to state restrictions.

**Recommendation 5:** *If applicable, continue to pursue outreach with the Conference of State Bank Supervisors and state regulators to assist FHLBanks in accessing state-issued ROEs.*

**Management Response:** FHFA agrees with the recommendation and will continue to pursue outreach on an ongoing basis as needed, with efforts depending on individual FHLBank success in accessing state-issued ROEs, the state-level legal framework for sharing ROEs, and the level of the risk. Because the process for obtaining ROEs varies by state depending on their legal requirements, the process likely will be iterative over time.

**Recommendation 6:** *Complete its assessment of the extent of weaknesses in the FHLBanks' enforcement of members' material adverse change notification requirements, and provide guidance to FHLBanks on best practices, such as issuing periodic reminders of notification requirements, to help ensure members' compliance with the FHLBanks' contractual requirements.*

**Management Response:** FHFA agrees with the recommendation. DBR has provided guidance to nearly all FHLBanks on best practices to assist members in ensuring contractual compliance. By September 15, 2026, DBR will ensure guidance is provided to all FHLBanks.

If you have any questions relating to our response, please contact Ed Stolle.

cc: John Major  
Ed Stolle



## Federal Housing Finance Agency Office of Inspector General

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