United States Government Accountability Office

GAO

Report to the Chairman, Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, Committee on Financial Services, House of Representatives

July 2010

FEDERAL HOUSING FINANCE AGENCY

Oversight of the Federal Home Loan Banks' Agricultural and Small Business Collateral Policies Could Be Improved

GAO

Accountability * Integrity * Reliability

GAO-10-792

GAO

Accountability·Integrity·Reliability

Highlights

Highlights of GAO-10-792, a report to the Chairman, Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The Federal Home Loan Bank System is a government-sponsored enterprise comprising 12 regionally-based Federal Home Loan Banks (FHLBank), the primary mission of which is to support housing finance and community and economic development. Each FHLBank makes loans (advances) to member financial institutions in its district, such as banks, which traditionally are secured by single-family mortgages. In 1999, the Gramm-Leach-Bliley Act (GLBA) authorized FHLBanks to accept alternative forms of collateral, such as agricultural and small business loans, from small members. GAO was asked to assess (1) factors that may limit the use of alternative collateral; and (2) selected aspects of the Federal Housing Finance Agency's, (FHFA) related regulatory oversight practices.

GAO reviewed FHLBank policies and FHFA documentation; and interviewed FHLBank and FHFA officials, and a nongeneralizable random sample of 30 small lenders likely to have significant levels of agricultural or small business loans in their portfolios.

What GAO Recommends

FHFA should revise its examination guidelines to include periodic analysis of alternative collateral, and enforce its regulation pertaining to quantitative goals for products related to agricultural and small business lending. FHFA agreed with these recommendations.

View GAO-10-792 or key components.
For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

July 2010

FEDERAL HOUSING FINANCE AGENCY

Oversight of the Federal Home Loan Banks' Agricultural and Small Business Collateral Policies Could Be Improved

What GAO Found

FHLBank and FHFA officials cited several factors to help explain why alternative collateral represents about 1 percent of all collateral that is used to secure advances. These factors include a potential lack of interest by small lenders in pledging such collateral to secure advances or the view that many such lenders have sufficient levels of single-family mortgage collateral. Officials from two FHLBanks said their institutions do not accept alternative collateral at all, at least in part for these reasons. Further, FHLBank officials said alternative collateral can be more difficult to evaluate than single-family mortgages and, therefore, may present greater financial risks. To mitigate these risks, the 10 FHLBanks that accept alternative collateral generally apply higher discounts, or haircuts, to it than any other form of collateral, which may limit its use (see table). For example, an FHLBank with a haircut of 80 percent on alternative collateral generally would allow a member to obtain an advance worth 20 percent of the collateral's value. While GAO's interviews with 30 small lenders likely to have significant alternative collateral on their books found that they generally valued their relationships with their local FHLBanks, officials from half said the large haircuts on alternative collateral or other policies limited the collateral's appeal.

FHFA's oversight of FHLBank alternative collateral policies and practices has been limited. For example, FHFA guidance does not direct its examiners to assess the FHLBanks' alternative collateral policies. As a result, the FHLBanks have wide discretion to either not accept alternative collateral or apply relatively large haircuts to it. While the FHLBanks may view these policies as necessary to mitigate potential risks, 9 of the 12 FHLBanks did not provide documentation to GAO to substantiate such policies. Further, the documentation provided by three FHLBanks suggests that, in some cases, haircuts applied to alternative collateral may be too large. Also, the majority of the FHLBanks have not developed quantitative goals for products related to agricultural and small business lending, such as alternative collateral, as required by FHFA regulations. FHFA officials said that alternative collateral has not been a focus of the agency's oversight efforts because it does not represent a significant safety and soundness concern. However, in the absence of more proactive FHFA oversight from a mission standpoint, the appropriateness of FHLBank alternative collateral policies is not clear.

Range of FHLBank Haircuts Applied to Various Collateral Types

	Alternative collateral haircuts				
FHLBank district	Small business	Small farm	Small agribusiness	Single-family mortgages	Commercial real estate mortgages
Ranges	40-80%	40-80%	40-80%	7-44%	40-67%

Source: GAO analysis of FHLBank collateral policies.

Contents

Figure

Abbreviations

AHP	Affordable Housing Program
CFI	Community Financial Institution
CIP	Community Investment Program
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHFA	Federal Housing Finance Agency
FHFB	Federal Housing Finance Board
FHLBank	Federal Home Loan Bank
FHLBank System	Federal Home Loan Bank System
FHLBank Act	Federal Home Loan Bank Act
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
GLBA	Gramm-Leach-Bliley Act of 1999
GSE	Government-sponsored Enterprise
HERA	Housing and Economic Recovery Act of 2008
SBA	Small Business Administration

GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

July 20, 2010

The Honorable Paul E. Kanjorski
Chairman
Subcommittee on Capital Markets, Insurance,
and Government Sponsored Enterprises
Committee on Financial Services
House of Representatives

Dear Mr. Chairman:

The Federal Home Loan Bank System (FHLBank System) is a government-sponsored enterprise (GSE) that consists of 12 regionally based Federal Home Loan Banks (FHLBank), the primary mission of which is to support housing finance and community and economic development. To carry out its mission, the FHLBank System issues debt in capital markets, generally at relatively favorable rates due to its GSE status, and each FHLBank makes loans (advances) to member financial institutions, such as banks and thrifts, located in its district. Traditionally, member institutions have secured advances by pledging single-family mortgages or investment-grade securities as collateral to their FHLBank. However, section 604 of title VI of the Gramm-Leach-Bliley Act (GLBA), also known as the Federal Home Loan Bank System Modernization Act of 1999, authorizes FHLBanks to accept alternative collateral, such as small business and small farm loans, from small members, known as Community Financial Institutions (CFI), which are defined as having $1.029 billion or less in total assets.[1] In enacting the GLBA reforms, the goal was to help smaller banks or thrifts, which may have limited single-family mortgages and other traditional assets to pledge as collateral, gain greater access to the liquidity offered by FHLBank advances.[2] In so doing, the GLBA reforms were supposed to help

[1]12 U.S.C. § 1430(a)(3)(E). CFIs are defined as any FHLBank member with deposits insured by the Federal Deposit Insurance Corporation (FDIC) and with total assets of up to $1.029 billion, as of January 1, 2010. 12 U.S.C. § 1422(10); 75 Fed. Reg. 9601 (Mar. 3, 2010). GLBA also allows FHLBank members to make greater use of other real estate related collateral—such as commercial real estate loans and home equity loans—as collateral for FHLBank advances.

[2]The House Report to H.R. 10, the House bill that preceded GLBA, states that the section on collateral for FHLBank advances was intended "to give 'community financial institutions' greater access to the FHLBank System," and, for the first time, the ability "to obtain long-term advances for providing funds for small business, agricultural, rural development, or low-income community development lending." H.R. Rep. 106-74(I), 127-128 (1999).

improve economic development credit opportunities in rural areas and other underserved communities.[3]

GLBA's legislative history also contains language suggesting that the FHLBanks and their former financial soundness and mission regulator, the Federal Housing Finance Board (FHFB), should "prioritize" the FHLBank System's economic development efforts through the use of alternative collateral.[4] FHFB regulations required each FHLBank to develop strategic business plans that established quantitative performance goals for products, which could include alternative collateral, related to small business, small farm, and small agribusiness lending.[5] In 2008, as part of the provisions of the Housing and Economic Recovery Act of 2008 (HERA), FHFB was abolished and replaced by the Federal Housing Finance Agency (FHFA), which assumed FHFB's financial soundness and mission oversight responsibilities for the FHLBank System.

While the FHLBanks have been authorized to accept alternative collateral for more than 10 years, its use has been minimal, according to FHFA data. Specifically, FHFA data indicate that alternative collateral secured about 1 percent of all FHLBank advances in 2008 and that percentage has been

[3]In supplemental remarks, the Chairman and Ranking Member of the Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises, House of Representatives Committee on Banking and Financial Services, stated that by granting smaller community banks greater access to longer-term funding with a broader base of collateral for advances, CFIs would then be able to increase the level of competition in underserved markets. They also stated that the reforms would serve as an integral tool to assist well-capitalized community banks, especially community banks in rural areas, inner cities, and underserved neighborhoods, to obtain a more stable funding source for intermediate- and long-term assets. See H.R. Rep. 106-74(I), 235 (1999) (statements by Rep. Baker and Rep. Kanjorski).

[4]Comments made by the Chairman of the House of Representatives, Committee on Banking and Financial Services and the Ranking Member of the Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises during debate on GLBA stressed the importance of the expanded collateral reforms in facilitating the ability of CFIs to offer agricultural and small business financing. As a result of the reforms, the Ranking Member stated that GLBA would provide a framework for CFIs to offer safe, sound, and fully collateralized economic development loans, and that he expected the FHLBanks and the Finance Board to prioritize the system's economic development efforts. See 145 Cong. Rec. H11513, H11529, H11544 (1999) (statements of Rep. Leach and Rep. Kanjorski).

[5]12 C.F.R. § 917.5(a)(3).

fairly constant at 1 percent or less since 2001.[6] In general, FHLBanks located in regions with significant agriculturally based economies—such as the FHLBanks located in Dallas, Des Moines, and Topeka—generally report higher acceptance of alternative collateral than other FHLBank districts. Several FHLBanks, including those in Atlanta, Cincinnati, and New York, either have not sought regulatory approval to accept alternative collateral or CFI members in their districts have not pledged such collateral.[7]

You requested that we review issues pertaining to the FHLBanks' implementation of the GLBA collateral reforms. Specifically, this report (1) discusses factors that may limit the use of alternative collateral to secure FHLBank advances; and (2) assesses selected aspects of FHFA's oversight of the FHLBanks' alternative collateral policies and practices.

To address the first objective, we analyzed relevant sections of GLBA and HERA, and FHLBank collateral policies and procedures, particularly those pertaining to alternative collateral. While we were able to review each FHLBank's collateral policies and procedures, the confidentiality of such information limited what we could publicly disclose in our report.[8] We also conducted interviews with officials from FHFA, the 12 FHLBanks, the Council of Federal Home Loan Banks, and the Independent Community Bankers of America. Further, we identified 796 CFI members, as of September 30, 2009, that either (1) met criteria established by the FDIC defining them as significant agricultural lenders or (2) met criteria established by the Small Business Administration's (SBA) Office of

[6]For example, FHFA has reported that while the amount of alternative collateral securing advances doubled to $10.1 billion in 2007, it "remained low at just .8 percent of total collateral." See Federal Housing Finance Agency, "Report on Collateral Securing Advances at the Federal Home Loan Banks," Prepared for the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, January 2009.

[7]As discussed in this report, the Atlanta and New York FHLBanks have not requested approval from FHFA to accept alternative collateral and the Cincinnati FHLBank does not report any of its CFI members using it to secure advances, as of year-end 2008.

[8]Specifically, the collateral discount (haircut) levels established by some of the 12 FHLBanks are considered proprietary information. Therefore, where appropriate we use an alphabetic system to refer to individual FHLBanks to protect their identities.

Advocacy defining them as significant small business lenders.[9] We also identified several CFIs that met the definition of both an agricultural and small business lender. From these populations, we interviewed a nongeneralizable, random sample of 30 CFI members.[10] Therefore, the sample consists of CFIs that might be expected to encounter challenges in obtaining FHLBank advances by pledging traditional forms of collateral. The sample also was designed to ensure that it included the perspective of CFIs (1) located in FHLBank districts that have high, some, or no use of alternative collateral; and (2) are very small (that is, those with less than $100 million in assets). The views expressed by the banks in our sample cannot be generalized to the universe of CFIs. For the second objective, we analyzed FHFA's regulations, examination policies and procedures, and recent FHLBank examination results to understand the nature of rules and information used by the agency to assess the FHLBanks' collateral management efforts. We also reviewed GLBA, HERA, and Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) requirements, as well as the FHLBanks' strategic business and Targeted Community Lending Plans and federal internal control standards. Finally, we reviewed FDIC's asset valuation estimates for various loan types in banks that recently failed or were on the verge of failure. To assess the reliability of FDIC, FHFA, and SBA's Office of Advocacy data, we (1) interviewed officials knowledgeable about the data; (2) assessed the data for obvious outliers and missing information; (3) checked a sample of the data against publicly available financial information on banks and thrifts; and (4) reviewed independent reports, and determined that the data were sufficiently reliable for our purposes. Appendix I contains a detailed description of our scope and methodology.

We conducted this performance audit from October 2009 to July 2010, 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

[9]FDIC defines an agricultural lender as having 25 percent or more of its loans in that sector. In a 2009 study, SBA's Office of Advocacy identified the largest small business lenders by state, primarily based on the percentage of small business loans (defined as loans with a value of $1 million or less) in their business loan portfolios. See Small Business Administration's Office of Advocacy, *Small Business and Micro Business Lending in the United States for Data Years 2007-2008*, (Washington, D.C., May 2009).

[10]We interviewed 14 CFIs that met the definition of a small business lender; 13 CFIs that met the definition of an agricultural lender; and 3 that met both definitions. See appendix I for more information on our sampling methodology.

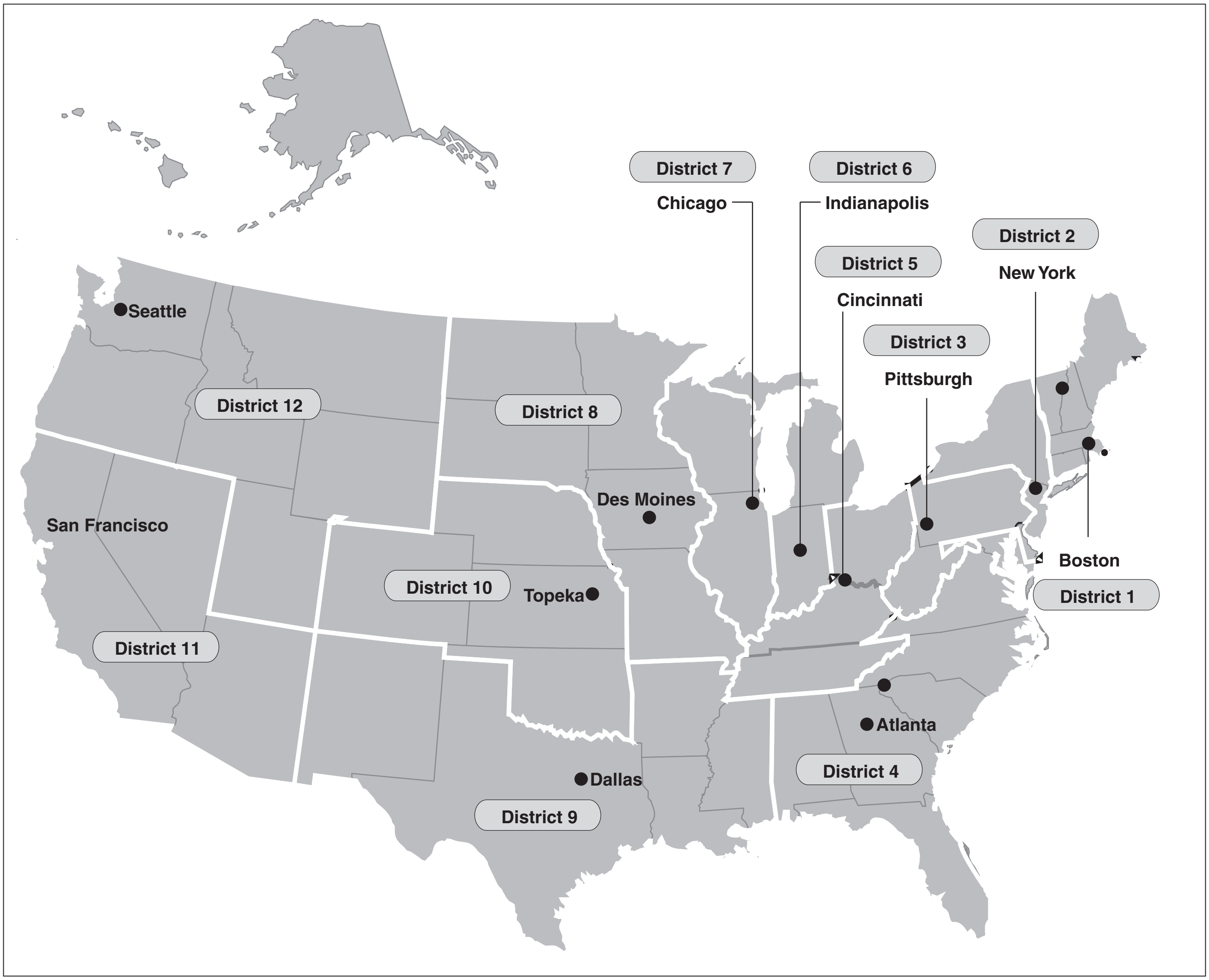
conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The FHLBank System was established in 1932 and consists of 12 FHLBanks (see fig. 1). Member financial institutions, which typically are commercial banks and thrifts (or savings and loans), cooperatively own each of the 12 FHLBanks. To become a member of its local FHLBank, a financial institution must maintain an investment in the capital stock of the FHLBank in an amount sufficient to satisfy the minimum investment required for that institution in accordance with the FHLBank's capital plan.[11] In addition to the ability to obtain advances, other benefits of FHLBank membership for financial institutions include earning dividends on their capital investments and access to various products and services, such as letters of credit and payment services. As of December 31, 2009, more than 8,000 financial institutions with approximately $13 trillion in assets were members of the FHLBank System. The FHLBank System's total outstanding advances stood at more than $631 billion.

[11] 12 C.F.R. § 931.3(d).

Figure 1: The 12 FHLBank Districts



Sources: FHFB data; Map Resources (map).

As established by statute and FHFA regulations, the FHLBanks are required to develop and implement collateral standards and other policies to mitigate the risk that member institutions may default on outstanding advances. To help do so, the FHLBanks generally apply a blanket lien on all or specific categories of a member's assets to secure the collateral underlying the advance. In general, a blanket lien agreement is intended to fully protect the FHLBank by securing its right to take and possibly sell any or all of a member's assets in the event it fails or defaults on its outstanding advances. In limited circumstances, FHLBanks may permit or require their members to pledge collateral under (1) a listing (specific detail) lien agreement in which the members are to report detailed information, such as the loan amount, payments, maturity date, and interest rate for the loans pledged as collateral; or (2) a delivery lien agreement, in which members are required to deliver the collateral to the FHLBank or an approved safekeeping facility.[12] From a member's perspective, the benefits of listing collateral in lieu of a blanket lien agreement can include better pricing terms. Some FHLBanks may require members to list or deliver collateral to better protect their financial interests in instances in which a member is in danger of failure or its financial condition begins to deteriorate.

FHLBanks also seek to manage risk and mitigate potential losses by applying varying haircuts, or discounts, to collateral pledged to secure advances. To illustrate: suppose that an FHLBank member sought to pledge a single-family residential mortgage loan portfolio with a value of $100 million to secure an advance from its district FHLBank. If the FHLBank applied a haircut of 25 percent to such collateral, the member would generally be able to secure advances of up to $75 million subject to other risk-management policies the FHLBank may have established.[13] In general, the FHLBanks' haircut levels tend to increase based on the perceived risks associated with the collateral being pledged. As described in this report, single-family mortgages and other forms of traditional collateral generally are perceived as representing less risk than alternative forms of collateral, such as agricultural and small business loans. Since FHLBanks generally issue advances under blanket lien agreements, they may calculate a member's total borrowing capacity by applying varying haircuts to each form of eligible collateral on the member's books and communicating this information to the member on a periodic basis.

[12]FHLBank policies vary regarding member and/or collateral requirements applicable to each lien type.

[13]For example, FHLBanks may set limits on the total amount of outstanding advances to an individual member. These limits are independent of the level of eligible collateral that a member must pledge to secure its advances.

In the event that a member institution fails, FHLBanks have a "first lien" on its assets. That is, they have priority over all other creditors, including FDIC, to obtain the collateral necessary to protect against losses on their outstanding advances. In a typical bank or thrift failure, FDIC pays off outstanding FHLBank advances in full and takes possession of the collateral on the institution's books to help offset its losses. According to the FHLBank Office of Finance, in the 78-year history of the FHLBank System, no FHLBank has ever suffered a credit loss on an advance.

The FHLBanks' haircuts and other risk management policies are intended to mitigate potential losses; however, they also may limit some members' interest in obtaining advances. For example, an FHLBank member may perceive that the level of haircuts applied to the collateral it pledges may unduly restrict the amount of financing it would like to obtain through advances. Administrative and other costs associated with obtaining advances also may factor into an FHLBank member's decision making process. For example, FHLBank officials conduct on-site inspections to assess members' collateral management practices or require members to have such practices independently audited. For some FHLBank members, the costs of such administrative procedures may outweigh the potential benefits of obtaining advances, particularly if they view the haircuts applied to the collateral as unreasonable.

While the FHLBank System's primary mission over the years has been to promote housing finance generally through its advance business, it is also required by statute and regulation to meet other specific mission requirements. For example, FIRREA authorizes both the Affordable Housing Program (AHP) and the Community Investment Program (CIP) to assist the FHLBanks' affordable housing mission.[14] Under AHP, each FHLBank is required to set aside 10 percent of its previous year's earnings to fund interest rate subsidies on advances to members engaged in lending for long-term, low- and moderate-income, owner-occupied, and affordable rental housing at subsidized interest rates.[15] In using the advances, the FHLBank members are to give priority to qualified projects, such as the purchase of homes for low- or moderate-income families or to purchase or

[14] 12 U.S.C. § 1430(i)-(j).

[15] 12 U.S.C. § 1430(j). Each FHLBank's contribution to AHP must currently equal "10 percent of the preceding year's net income, or such prorated sums as may be required to assure that the aggregate contribution of the Banks shall not be less than $100,000,000 for each such year. 12 U.S.C. § 1430(j)(5)(C).

rehabilitate government-owned housing. FIRREA also established CIP, which requires FHLBanks to provide flexible advance terms for members to undertake community-oriented mortgage lending. CIP advances may be made at the FHLBank's cost of funds (for advances with similar maturities) plus the cost of administrative fees. Moreover, FIRREA requires FHFB (now FHFA) to establish standards of community investment or service for members of FHLBanks to maintain continued access to long-term advances.[16] These standards include the development of a Targeted Community Lending Plan (which is designed to help the FHLBanks assess the credit needs of the communities that they serve) and quantitative lending goals that address identified credit needs and marketing opportunities in each FHLBank's district.

FHFA has safety and soundness and mission oversight for the FHLBank System and Fannie Mae and Freddie Mac.[17] For example, FHFA is responsible for ensuring that the FHLBanks establish appropriate collateral management policies and practices to mitigate the risks associated with their advance business. From a mission standpoint, FHFA also is responsible for ensuring that the FHLBanks are in compliance with statutes and regulations pertaining to the AHP and CIP programs. While GLBA does not establish specific requirements for alternative collateral, its legislative history suggests that the FHLBanks and FHFB, and by extension FHFA, should prioritize the FHLBank System's economic development activities through the use of alternative collateral. To carry out its responsibilities, FHFA may issue regulations, establish capital standards, and conduct on-site safety and soundness or mission-related examinations. FHFA also may take enforcement actions, such as issuing cease and desist orders, and may place an FHLBank, Fannie Mae, or

[16] 12 U.S.C. § 1430(g). Regulations implementing this provision require FHLBanks to have a community support program, which must include an annual Targeted Community Lending Plan. This plan requires the FHLBank to conduct market research in its district, describe how it will address identified credit needs and market opportunities for targeted community lending, and establish quantitative targeted community lending performance goals. 12 C.F.R. § 1290.6.

[17] Fannie Mae and Freddie Mac are housing GSEs that issue debt in the capital markets and use the proceeds to purchase mortgages from banks and thrifts to help facilitate liquidity in the U.S. housing and mortgage markets.

Freddie Mac into conservatorship or receivership if they become undercapitalized or critically undercapitalized.[18]

FHLBank and CFI Officials Cited Several Factors, Including Lack of Interest and Risk-Management Policies, to Explain Minimal Use of Alternative Collateral

Officials from the 12 FHLBanks cited several factors to help explain the minimal use of alternative collateral to secure advances in the FHLBank System. These factors include a potential lack of interest among many CFI members; the view that many CFIs belong to the FHLBank System primarily to have access to letters of credit and other products or to obtain a backup source of liquidity; and that many CFIs may have sufficient holdings of traditional collateral to secure advances. Moreover, due to the potential risks associated with alternative collateral, the 10 FHLBanks that accept it have established risk-management strategies to mitigate potential losses, which also may limit its use. In particular, the FHLBanks generally have applied higher haircuts to alternative collateral than to any other type of collateral used to secure advances. Officials from many of the 30 CFIs we interviewed said that they valued their relationships with their local FHLBanks and the products and services provided. However, officials from half of these CFIs expressed concerns about the level of the haircuts applied to alternative collateral or other FHLBank risk-management strategies. In some cases, they said the haircuts or policies limited their willingness to pledge such collateral to obtain advances.

FHLBank Officials Generally Attributed the Minimal Use of Alternative Collateral to Limited Demand among Many CFI Members and Ready Availability of Traditional Collateral

According to representatives from the 12 FHLBanks, they have ongoing member outreach programs that are intended, in part, to address members' credit and collateral needs and the various products available to them. The FHLBank officials said that outreach activities can include telephone calls or visits to members to discuss the availability of alternative collateral and its potential use by CFI members. Some FHLBanks also have annual meetings, online product tutorials, and electronic bulletins that provide information about alternative collateral.

While officials from the 12 FHLBanks said they had outreach programs in place, some officials cited the significant differences in the membership characteristics across the FHLBank System as affecting the use of

[18]On September 6, 2008, FHFA placed Fannie Mae and Freddie Mac in conservatorships due to their deteriorating financial condition. As conservator, FHFA has full power to control the assets and operations of the firms. The Congressional Budget Office estimates that the Fannie Mae and Freddie Mac conservatorships could cost the federal government nearly $400 billion over the next 10 years.

alternative collateral (see table 1). For example, CFIs represent more than 80 percent of the membership and about 30 percent of the assets of the FHLBanks in Dallas and Topeka, and many of these CFI members focus on agricultural lending due to its prominence in the regional economies. While CFI assets represented a relatively small proportion, or 13 percent, of the total assets of members in the Des Moines FHLBank district, officials said that alternative collateral was of significant interest to their members due to the prominence of agricultural-related businesses in the district. In contrast, CFI assets represented a relatively small portion, or less than 10 percent, of all membership assets in the FHLBank districts of Atlanta and New York, neither of which have submitted new business activity notices to FHFA requesting approval to accept alternative collateral; and the FHLBank of Cincinnati reported no alternative collateral activity at year-end 2008. Officials from these three FHLBanks said that their memberships had not expressed an interest in pledging alternative collateral. Similarly, although CFI membership and assets also were relatively significant in the Chicago FHLBank district, officials said that their membership had not expressed much interest in using alternative collateral to secure advances. One FHLBank official noted that, given the cooperative nature of the FHLBank System, membership interest often drove the decision to make certain products and services available.

Table 1: Characteristics of CFI Members and Assets in the 12 FHLBanks, as of December 31, 2009

Dollars in millions

FHLBank district	Total CFI members	Total members	Percentage of CFI members	Total CFI assets	Total member assets	Percentage of CFI assets
Atlanta	946	1,194	79%	$259,916	$3,455,365	8%
Boston	252	462	55	94,176	692,444	14
Chicago	695	790	88	148,981	499,675	30
Cincinnati	563	735	77	$19,168	872,869	14
Dallas[a]	776	922	84	$83,467	601,072	31
Des Moines[a]	1,078	1,226	88	$81,984	1,455,698	13
Indianapolis	254	417	61	57,894	450,396	13
New York	208	331	63	68,860	1,581,211	4
Pittsburgh	245	316	78	73,689	984,503	7
San Francisco	254	406	63	69,810	1,785,012	4
Seattle	244	384	64	66,775	388,666	17
Topeka[a]	756	873	87	122,190	444,338	27
FHLBank System total	**6,271**	**8,056**	**78%**	**$1,446,910**	**$13,211,249**	**11%**

Source: GAO analysis of FHFA data.

[a]Indicates FHLBanks whose officials said that alternative collateral was significant to their membership.

Officials from several FHLBanks also said that CFIs often do not take out advances from their local FHLBank and, therefore, have no reason to use alternative collateral. Rather than taking out advances, several FHLBank officials said many CFIs derive other benefits from their membership, particularly letters of credit, and other services. The officials added that CFIs also may belong to the FHLBank System to have a backup source of liquidity in case other sources, including customer deposits or the federal funds market become unavailable or prohibitively expensive.[19]

According to some FHLBank officials, many CFIs may have sufficient traditional collateral, such as single-family mortgages and investment-grade securities, to secure advances. Officials at the FHLBanks of Boston,

[19]The federal funds market refers to the principal monetary policy tool of the Board of Governors of the Federal Reserve System (Federal Reserve). A goal of the Federal Reserve is to promote open market operations by achieving a desired quantity of reserves or desired price—the federal funds rate—through the purchase and sale of U.S. Treasury and federal agency securities. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

Cincinnati, and Pittsburgh said that they reported no or low levels of alternative collateral securing advances at year-end 2008, in part, because their members had sufficient levels of other eligible collateral. Atlanta and New York FHLBank officials said that they conducted regular analyses to determine whether any banks in their membership were collaterally constrained and, therefore would need alternative collateral to obtain an advance. Officials at these banks said since 2000, their annual analyses have determined that alternative collateral was not needed among their membership.

Our analysis of FHFA, FDIC, and SBA's Office of Advocacy data found that while most CFIs may have sufficient traditional sources of collateral to secure advances, a considerable minority of CFIs with significant holdings of alternative collateral on their books may face challenges in doing so. For example, we identified 480 CFIs with $47.3 billion in assets, as of December 31, 2009, that met the FDIC's definition of an agricultural bank (see table 2). The FHLBanks of Des Moines and Topeka had the most agricultural CFI members and the CFIs in these two districts had the greatest amount of total assets for such lenders.

Table 2: Number and Total Assets of Agricultural CFIs by FHLBank District, as of December 31, 2009

Dollars in millions

FHLBank district	Number of agricultural CFIs	Number of all CFIs	Agricultural CFIs as a percentage of all CFIs	Agricultural CFI assets	All CFI assets	Agricultural CFI assets as a percentage of all CFI assets
Atlanta	0	946	0.00%	$0	$259,916	0.00%
Boston	0	252	0.00	0	94,176	0.00
Chicago	29	695	4.17	2,934	148,981	1.97
Cincinnati	0	563	0.00	0	119,169	0.00
Dallas	39	776	5.03	3,380	183,467	1.84
Des Moines	213	1,078	19.76	23,373	181,984	12.84
Indianapolis	1	254	0.39	48	57,893	0.08
New York	0	208	0.00	0	68,860	0.00
Pittsburgh	0	245	0.00	0	73,689	0.00
San Francisco	0	254	0.00	0	69,810	0.00
Seattle	11	244	4.51	741	66,775	1.11
Topeka	187	756	24.74	16,858	122,190	13.80
FHLBank System total	**480**	**6,271**	**7.65%**	**$47,334**	**$1,446,910**	**3.27%**

Source: GAO analysis of FHFA, FDIC, and SBA's Office of Advocacy data.

Using SBA's Office of Advocacy data we also found 326 CFIs with $102.3 billion in assets, as of September 30, 2009, that were identified as the largest small business lenders (see table 3).[20] The number and assets of small business CFIs appeared to be more evenly distributed across the FHLBank System than agricultural CFIs. We interviewed a limited sample of 30 representatives from these agricultural and small business CFIs and discuss their perspectives on FHLBank alternative collateral policies and practices later in this report.

[20]These data are as of September 30, 2009. Because there is no established definition of a small business lender, we use SBA's Office of Advocacy data as a proxy to identify significant small business lenders. SBA's Office of Advocacy defines a small business loan as a business loan of $1 million or less and uses a ranking methodology, involving four variables, to create a composite score for the lending activities of individual lenders, ranking the lenders by state. The four variables are (1) ratio of small business loans to total assets, (2) ratio of small business loans to total business loans, (3) dollar value of small business loans, and (4) number of small business loans. According to SBA's Office of Advocacy, small institutions tend to score higher in some categories than larger institutions and vice versa. For example, smaller lenders have a higher percentage of total assets in small business loans, but larger lenders lead in the sheer number and value of small loans. SBA's Office of Advocacy states that using two ratio variables and two value variables permits a balanced measure of lending performance by lenders of different sizes.

Table 3: Number and Total Assets of Small Business CFIs by FHLBank District, as of September 30, 2009

Dollars in millions

FHLBank district	Number of small business CFIs	Number of all CFIs	Small business CFIs as a percentage of all CFIs	Small business CFI assets	All CFI assets	Small business CFI assets as a percentage of all CFI assets
Atlanta	51	948	5.38%	$18,214	$247,370	7.36%
Boston	13	247	5.26	6,961	89,078	7.81
Chicago	19	702	2.71	4,913	144,137	3.41
Cincinnati	28	564	4.96	8,247	116,593	7.07
Dallas	39	778	5.01	10,790	172,949	6.24
Des Moines	44	1,082	4.07	12,638	174,460	7.24
Indianapolis	17	259	6.56	3,877	58,161	6.67
New York	20	203	9.85	9,126	63,950	14.27
Pittsburgh	15	242	6.20	5,679	66,820	8.50
San Francisco	16	260	6.15	5,585	69,042	8.09
Seattle	25	238	10.50	9,610	63,879	15.04
Topeka	39	758	5.15	6,644	118,760	5.59
FHLBank System total	**326**	**6,281**	**5.19%**	**$102,284**	**$1,385,199**	**7.38%**

Source: GAO analysis of FHFA and SBA's Office of Advocacy data.

FHLBank Policies That Focus On Potential Risks May Also Limit the Use of Alternative Collateral

FHFA and some FHLBank officials said that alternative collateral generally has been viewed as representing greater risks than single-family mortgages and investment-grade securities. For example, FHFA officials said that it could be difficult to establish a value for agricultural and small business loans because they generally have not been actively traded in secondary markets. In the absence of secondary markets, alternative collateral may be relatively illiquid, which means an FHLBank might face difficulties in selling such underlying collateral if a CFI failed or defaulted on its advance.[21] As described earlier, FDIC generally pays the FHLBank the principal balance of the outstanding advances of failed members and takes possession of the underlying collateral. However, FDIC may not always follow this procedure in future bank failures and the possibility of a CFI defaulting on a loan or failing would put the FHLBank at a risk of losses, as it might be unable to sell the alternative collateral in a timely

[21]The risk of default can be tied to the advance, the failure of the CFI, or both.

manner.[22] In contrast, FHLBanks generally can more easily estimate values for traditional collateral because mortgages often are pooled into securities and actively traded on secondary markets. In the event a member failed or defaulted on its outstanding advances, the FHLBanks generally would be able to sell the underlying collateral that secured the mortgages or securities.

In a previous report, we commented on the challenges associated with establishing values for small business loans as compared with single-family mortgage loans.[23] Unlike mortgage lending, small business loans exhibit greater heterogeneity and more complexity. For example, although mortgage lending has become more complicated in recent years, the type of financing that prospective homebuyers seek remains fairly standardized (two general categories—fixed- or variable-rate loans) and the collateral securing mortgages, generally single-family residences, is relatively easy to understand and market. In contrast, the types of financing that small businesses typically seek can range from revolving lines of credit to term loans, and the collateral pledged against such loans also may vary widely in risk and marketability (from relatively secure real estate to less secure inventory).

The 10 FHLBanks that accept alternative collateral have adopted risk-management policies intended to mitigate the perceived risks of such collateral, but which also may limit its appeal to CFIs. These FHLBanks generally apply higher haircuts to alternative collateral than to any other type of collateral that may be used to secure advances. As shown in table 4, the haircuts, or range of haircuts, that the FHLBanks apply to alternative collateral generally have been higher than for traditional forms of collateral, such as single-family mortgages or commercial real estate loans. The maximum haircut applied by an FHLBank to alternative collateral is 80 percent under a blanket lien policy, which generally means that the member could take out an advance of up to 20 percent of the value of such collateral, whereas the maximum haircut applied to commercial real estate collateral is 67 percent. Over the years, commercial real estate has been

[22]With certain exceptions, FHLBanks generally are entitled under 12 U.S.C. § 1430(e) to have priority over the claims and rights of any party. As discussed in the text, FDIC generally pays off outstanding FHLBank advances when a bank or thrift fails and sells the institution's assets, including collateral that had been pledged to secure the advances, to mitigate losses to the Deposit Insurance Fund. See also 12 C.F.R. § 360.2.

[23]See GAO, *Fair Lending: Race and Gender Data Are Limited for Nonmortgage Lending*, GAO-08-698 (Washington, D.C.: June 27, 2008).

viewed as a potentially risky type of asset that has resulted in significant bank losses and numerous bank failures.[24]

Table 4: Percentage Haircut Requirements for the 10 FHLBanks That Accept Alternative, Single-Family, and Commercial Real Estate Collateral under a Blanket Lien Option[a]

	Alternative collateral haircuts				
FHLBank district	**Small business**	**Small farm**	**Small agribusiness**	**Single-family**	**Commercial real estate**
Bank A	40	50	50	17	40 or 60
Bank B	50[c]	50[c]	50[c]	25	67[c]
Bank C[b]	67-80	67-80	67-80	20-43	46-58
Bank D[b]	40	60	60	25	40
Bank E[b]	67	50	—[d]	31	50
Bank F[b]	55-65	55-65	55-65	31-40	45-55
Bank G	50	50	50	25	50
Bank H[b]	50-76	—[d]	50-76	15-44	46-57
Bank I[b]	75	75	75	36-41	48-53
Bank J[b]	50-51	35	50	7-30	51
Total haircut range	**40-80**	**40-80**	**40-80**	**7-44**	**40-67**

Source: GAO analysis of FHLBank collateral policies.

[a]The FHLBanks use different methods to reflect the percentage haircut requirement on collateral. We have converted their different measures to one consistent standard for purposes of comparison.

[b]Indicates FHLBanks whose haircuts for alternative collateral are generally higher than for single family and commercial real estate collateral

[c]Data reflect haircuts under a specific or listed lien agreement because the FHLBank does not accept these collateral types under a blanket lien.

[d]The FHLBank does not accept the loan type as collateral.

[24]During the late 1980s and early 1990s, many banks failed in New England and elsewhere due to concentrations in real estate lending. See GAO, *Bank and Thrift Regulation: Implementation of FDICIA's Prompt Regulatory Action Provisions*, GAO/GGD-97-18 (Washington, D.C.: Nov. 21, 1996). The Comptroller of the Currency also testified before Congress in October 2009 that declining real estate values caused by rising vacancies, falling rental rates, and weak sales have contributed to substantial bank losses on commercial real estate loans in recent years. Similarly, FDIC Chairman Sheila Bair testified that commercial real estate loans would drive bank failures into 2010. See testimonies of Sheila Bair, FDIC Chairman, and John C. Dugan, Comptroller of the Currency, before the Subcommittee on Financial Institutions, Senate Committee on Banking, Housing and Urban Affairs, *Examining the State of the Banking Industry*, 111th Cong., 1st Sess., Oct. 14, 2009.

The haircuts that the FHLBanks apply to alternative collateral can vary significantly. For example, the haircut on small business loans ranges from 40 to 80 percent. In contrast, two FHLBanks apply a uniform 50 percent haircut to all three types of alternative collateral (see table 4). We discuss the extent to which the FHLBanks have an analytical basis for the haircuts applied to alternative collateral later in this report.

Some FHLBanks also maintain other collateral policies designed to mitigate the perceived risks associated with alternative collateral. For example, the FHLBanks have established borrowing capacity limits to further minimize the risks associated with making advances and generally apply them to all members. However, some FHLBanks have established more stringent borrowing limits for members pledging alternative collateral. For example, in addition to applying haircuts of more than 50 percent, one FHLBank limits the amount of alternative collateral that a member may pledge to 20 percent of the member's total assets. One FHLBank sets the limit at 10 percent, in addition to its 50 percent haircut. In contrast, most other FHLBanks' policies set borrowing capacity rates from 30 to 55 percent for members.

CFIs Generally Valued Their Relations With FHLBanks, but Half Raised Concerns about Haircuts on Alternative Collateral or Other FHLBank Risk-Management Policies

While many CFIs may have significant traditional collateral resources to pledge to secure advances, we conducted interviews with 30 CFIs that could be constrained in their ability to obtain FHLBank advances due to their significant involvement in agricultural or small business lending. Most of the CFIs in our sample said that they valued the products and services they received from their local FHLBank.[25] Officials from many of the CFIs said that FHLBank membership provided their institutions with access to a stable and relatively low-cost source of liquidity or provided access to a key source of backup liquidity, among other things. Officials from several CFIs that have significant concentrations in agricultural loans said that their ability to pledge such loans as collateral helped them to obtain advances and thereby expand their lending activities, because the

[25]Our sample included 30 CFIs that are heavily involved in agricultural lending, small business lending, or both. Eleven CFIs in our sample were located in the Topeka, Des Moines, and Dallas districts—three of the districts with the heaviest usage of alternative collateral. These three districts had a combined total of 2,610 CFI members with $487.6 billion in total assets as of December 31, 2009. The 11 CFIs in the Topeka, Dallas, and Des Moines districts held $2.4 billion in total assets, which represented 0.2 percent of the total CFI assets for the three districts combined.

advances generally allowed CFIs to provide borrowers with long-term financing on favorable terms.

To some degree, the results from our interviews with officials from the 30 CFIs were consistent with rationales offered by FHLBank and FHFA officials about the minimal use of alternative collateral in the FHLBank System. Officials from 15 of the 30 CFIs we interviewed said that they had pledged alternative collateral to help secure FHLBank advances and officials from all but one of these reported having advances outstanding (see table 5). Officials from the other 15 CFIs said they had not used alternative collateral to secure an advance because, for example, they generally had sufficient traditional collateral to secure advances or sufficient levels of other sources of liquidity, such as customer deposits, to finance their lending activities (see table 5). As discussed previously, FHLBank officials have stated that readily available traditional collateral is one reason that many CFIs have not pledged alternative collateral to obtain advances.

Table 5: CFIs Reported Use of Alternative Collateral to Secure Advances

Reported alternative collateral usage	Reported currently having outstanding advances	Did not report currently having outstanding advances	No response	Total
Used	14	1	0	**15**
Not used	9	5	1	**15**
Total	**23**	**6**	**1**	**30**

Source: GAO.

However, officials from 15 of the 30 CFIs we interviewed expressed concern about the haircuts applied to alternative collateral or other FHLBank policies that may limit its appeal and use. Of these 15 CFIs, officials from 11 specifically expressed concern about the level of haircuts. These officials, some of whom had not yet pledged alternative collateral to secure an advance, said that their local FHLBank's large haircuts were a factor in their banks' decision not to pledge alternative collateral. Some of the officials also said that their local FHLBank's haircuts were not consistent with historical losses on small business, small farm, or small agribusiness loans.[26]

Officials from 4 of the 15 CFIs expressed concern about other FHLBank policies unrelated to haircuts, which included limitations on the types of alternative collateral accepted by some FHLBanks and limits on borrowing that some FHLBanks apply to alternative collateral.[27] For example, an official from an agricultural CFI with $56 million in total assets said that its local FHLBank has a policy that limits the amount of an advance a CFI member could obtain using alternative collateral to 10 percent of total assets. The official characterized the policy as highly restrictive, particularly for a small agricultural lender. The FHLBank to which this lender belongs permits non-CFI members using traditional collateral to secure an advance to borrow up to 35 percent of their total assets.

FHFA's Oversight of the FHLBanks' Alternative Collateral Policies and Practices Has Been Limited

While FHFB held a conference in 2005 on the use of alternative collateral which may have focused the FHLBanks' attention on the issue, regulatory oversight of the FHLBanks' policies and practices for such collateral, from a mission standpoint, has been limited.[28] For example, FHFA examiners have not been routinely directed to assess the FHLBanks' analytical basis for the haircuts on alternative collateral, although they are directed to do so for traditional forms of collateral. In the absence of regulatory oversight, the FHLBanks have exercised wide discretion in establishing policies and practices pertaining to alternative collateral over the years. Although the FHLBanks may view these policies and practices as necessary to protect their financial soundness, our review also indicates

[26]Of the 11 CFIs that expressed concern about the level of FHLBank haircuts for alternative collateral, 5 had pledged alternative collateral to obtain an advance and 6 had not. Of the 5 that had pledged alternative collateral, all 5 characterized the haircuts applied to such collateral as too high. Of the 6 CFIs that had not pledged alternative collateral, all characterized the haircuts applied to such collateral as too high and all noted that the haircut levels for alternative collateral were a factor in their decision not to pledge such collateral.

[27]Two additional CFIs expressed concern about other FHLBank policies, such as reporting requirements and compliance costs for alternative collateral. These CFIs are included among the 11 CFIs that specifically expressed concern about the level of haircuts applied to alternative collateral.

[28]In September 2005, FHFA's predecessor, FHFB, held a conference to discuss why some FHLBanks were not using their authority to accept alternative collateral and how to make better use of the authority within the FHLBanks' primary mission to provide community and economic development lending opportunities to local communities.

that many FHLBanks have not substantiated through documentation the analytical basis for such policies, including establishing the haircut levels. Available FHLBank documentation suggests that some haircuts applied to alternative collateral may need to be lowered and others raised. Moreover, a majority of the FHLBanks have not established quantitative performance goals for products, related to agricultural and small business lending in their strategic business plans, which could include alternative collateral, as required by agency regulations. Additionally, the FHLBanks are not required to identify and address agricultural and small business financing needs in their communities, including potential uses for alternative collateral, through a process of market analysis and consultations with stakeholders as they are required to do by FHFA regulations for their Targeted Community Development Plans, which agency officials said largely pertain to the AHP and CIP programs. FHFA officials said they have not focused oversight efforts on alternative collateral policies and practices because its minimal use within the FHLBank System does not represent a safety and soundness concern. But, without more proactive oversight by FHFA from a mission standpoint, the appropriateness of FHLBank alternative collateral policies may not be clear.

FHFA Examinations Do Not Include Reviews of the FHLBanks' Analytical Basis for Their Alternative Collateral Policies and Practices

While FHFA examination guidance does not require reviews of FHLBank alternative collateral policies and practices, it does include procedures related to general collateral management policies and practices. For example, examiners are expected to assess whether each FHLBank has addressed appropriate levels of collateralization, including valuation and collateral haircuts. According to FHFA officials, at every examination an examiner will review documentation of the FHLBanks' general collateral valuation and haircut analyses, and any available underlying financial models.

Our review of FHFB and FHFA examinations of each of the 12 FHLBanks over the past three examination cycles confirmed that examiners did not address the FHLBanks' alternative collateral management policies and practices.[29] However, consistent with the examination guidance, the examinations did include analysis of the FHLBanks' general collateral policies and practices. For example, FHFA examiners noted that one FHLBank did not regularly review its collateral haircuts and that the current haircuts had not been validated by well-documented analyses.

[29]We reviewed 23 FHLBank examinations, of which FHFB conducted 7 in 2007, and FHFA conducted 16 during 2008 and 2009.

Examiners also found that another FHLBank disregarded the results of a collateral valuation model to establish haircuts for certain members without sufficient analysis to support the decision. FHFA officials we contacted said that due to mounting concerns about the FHLBanks' safety and soundness in 2009, the agency conducted a focused review of the FHLBanks' collateral management practices, including valuation and haircut methodologies. They also noted that they have been monitoring the FHLBanks' progress in responding to examiners' recommendations to improve documentation of their general collateral haircut policies.

FHFA guidance also includes procedures for assessing the FHLBanks' compliance with other mission-related programs. Specifically, the examination guidance includes procedures for assessing the FHLBanks' implementation of the AHP and the CIP programs. As established by FHFA guidance, examiners should assess the effectiveness of these programs at each FHLBank and whether program operations were consistent with the laws and policies that govern them. For example, the examination guidance indicates that examiners should evaluate the reasonableness of fees associated with these programs, whether the FHLBank has met its established community lending goals, and the extent to which the projects funded by the programs benefited eligible targeted businesses or households. Our review found that the examinations generally included sections that assessed the FHLBanks' implementation of AHP and CIP programs.

FHFA officials cited several reasons why the agency's examination procedures and practices did not specifically address alternative collateral. First, they said that the use of alternative collateral was minimal and did not represent a significant safety and soundness concern. Because single-family mortgages, investment-grade securities, and commercial real estate loans represent the vast majority of member assets that are pledged to secure advances, FHFA officials said that they have focused their examination resources on them. They wanted to ensure that the FHLBanks have established adequate policies and procedures for managing such collateral, including the analytical basis for the haircuts applied to it, and the mitigation of potential losses. Furthermore, FHFA officials said important differences between alternative collateral and other mission-related programs, such as the AHP program, explained the differences in the agency's oversight approaches. They said that FIRREA establishes specific requirements for how the AHP program is to be funded and implemented. For example, the statute establishes the level of annual contribution from each FHLBank to fund their AHP programs as well as minimum requirements for the FHLBanks' mandated AHP implementation plans. In contrast, FHFA officials said GLBA only authorizes the FHLBanks to accept alternative collateral to secure advances, and does not establish specific requirements for operating the program that could be assessed through examinations.

In the Absence of FHFA Examination Oversight, FHLBanks Have Wide Discretion to Establish Haircuts and Other Policies for Alternative Collateral, but Documentation to Support These Policies Is Limited

While FHFA may prioritize FHLBank safety and soundness concerns and the structure of the AHP and CIP programs may facilitate their oversight from a mission standpoint, FHFA's, as well as FHFB's, limited oversight of alternative collateral may have limited its appeal within the FHLBank System. By not implementing examination procedures that are consistent with its general approaches to monitoring FHLBank collateral practices, FHFA has provided the FHLBanks with wide discretion in adopting policies and practices for alternative collateral. Although the FHLBanks may have adopted policies that they believe are necessary to protect their financial interests while complying with their missions, our work indicates that the analytical bases for these generally have not been fully documented.

Although federal internal control standards established that key decisions need to be documented, one of the two FHLBanks that has not accepted alternative collateral provided a documented basis for its policy.[30] Further, of the 10 FHLBanks that accept alternative collateral, 3 provided documentation of the basis of the haircuts that they applied to such collateral. Analysis from 2 FHLBanks suggested that their haircuts for all types of alternative collateral were too high and 1 FHLBank subsequently revised the haircuts downward by an average of about 11 percentage points. The other FHLBank's analysis suggested that the haircuts it applied to agricultural collateral might be too high, while the haircuts for small business collateral might be too low. Of the 7 FHLBanks that did not provide any documentation of their alternative collateral haircuts, officials from 3 said they have not documented such analysis and the other 4 did not respond to our requests. An official from 1 of the FHLBanks that has not established documentation for its alternative haircuts said they had been set at a level to be "conservative." As discussed previously, FHFA guidance directs examiners to assess the analytical basis for the haircuts applied to other forms of collateral.

[30] See GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

We also analyzed FDIC data on the estimated losses on various loan categories in banks that failed or were on the verge of failure between January 2009 and February 2010, which raises some questions and reinforces the need for further analysis of the risks associated with alternative collateral. Prior to a bank's failure, FDIC contractors conduct on-site reviews to assess the value (defined as the estimated market value of the loans as a percentage of the outstanding balances) of the assets held by the bank to calculate how much the failure will cost the Deposit Insurance Fund.[31] According to FDIC officials, estimates are made on the value of the loans of such banks, including single-family residential loans, residential and nonresidential construction loans, consumer loans, business loans, and agricultural loans. According to the FDIC data, the estimated value of agricultural loans was higher than the value of any other type of loan reviewed. Our discussions with several agricultural CFIs and reviews of some regulatory and independent reports also suggest that the U.S. agricultural economy has performed somewhat better than the broader economy in recent years, which may explain why such collateral recently may have outperformed other types of loans as suggested by FDIC data.[32] Furthermore, while the commercial and industrial loans category (which includes small business loans) had a lower estimated value than the agricultural, consumer, and single-family mortgage loan categories, according to the FDIC's asset valuation estimates, it had a higher estimated value than the nonresidential and residential construction loan categories.[33]

However, important limitations apply to any analysis of these FDIC data. First, because the data only cover recent bank failures or near failures, they do not provide a historical basis to assess the relative risk of the various loan types. Many banks have failed recently primarily due to substantial losses on residential mortgages and commercial real estate

[31]According to FDIC officials, data on estimated losses are collected using contractors' proprietary valuation models. Staff from FDIC's Division of Resolutions and Receiverships then review the data, which are used to help FDIC evaluate bids from prospective acquirers in failing bank transactions.

[32]See Congressional Oversight Panel, *Special Report on Farm Loan Restructuring* (report submitted under Section 501 of Title 5 of the Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, 123 Stat. 1632 (2009)) and Federal Reserve Bank of Kansas City, *Survey of Tenth District Agricultural Credit Conditions*, First Quarter 2010, accessed at www.kansascityfed.org/agcrsurv/agcrmain.

[33]GAO is not publicly releasing the specific figures due to their potential sensitivity in relation to FDIC's capacity to minimize the cost of resolving failing banks.

loans, of which each has experienced significant price declines.[34] Second, the analysis does not control for any other factors that may be related to FDIC's asset valuation estimates, such as the characteristics of the loans made by the banks. Nevertheless, these data raise questions about the FHLBanks' analytical basis for the haircuts that are currently applied to alternative collateral as well as the need for FHFA to routinely review the basis for these policies from a mission standpoint to help ensure that they are not unduly limiting the use of such collateral to secure advances.

FHFA Has Not Enforced or Amended Regulations That Could Focus the FHLBanks' Attention on Agricultural and Small Business Lending, Including the Use of Alternative Collateral

In 2000, FHFB issued regulations, which remain in effect today, that require each FHLBank's board of directors to adopt a strategic business plan that describes how the business activities of the FHLBank will achieve its mission. As part of the strategic business plan, FHLBanks must establish quantitative performance goals for products related to multifamily housing, small business, small farm, and small agribusiness lending. Such products could include advances to CFIs that are secured by alternative collateral. As part of its mission oversight responsibilities, FHFA is responsible for ensuring that the FHLBanks comply with these annual goal requirements in establishing their plans.

Our review indicates that the strategic business plans of five FHLBanks do not include such goals. While the remaining seven FHLBanks have established goals for alternative collateral lending, three have set goals at zero. The four FHLBank strategic business plans that include the required goals establish annual benchmarks for the number or dollar amount of advances made to members for the purpose of lending to small businesses, small farms, and small agribusinesses. FHFA officials said that lending goals for alternative collateral are not part of its planned review of FHLBanks' 2010 strategic business plans. In the absence of vigorous oversight and enforcement by FHFA, many FHLBanks may continue to place a low priority on requirements that they establish quantitative annual goals for products related to agricultural and small business lending, which could include advances secured by alternative collateral.

According to FHFA officials, the regulation pertaining to the AHP and CIP programs requires the FHLBanks to develop annual Targeted Community Lending Plans to address identified credit needs and market opportunities

[34] FDIC officials noted that most detailed data about failed banks are purged every 13 months.

for targeted community lending in their districts.[35] To develop these plans, FHLBanks are to consult with members, economic development organizations, and others, and establish quantitative community lending goals. FHLBanks also must conduct market research to ascertain their district's economic development needs and opportunities. The regulator then uses the Targeted Community Lending Plans to help determine the extent to which FHLBanks have achieved their mission to provide community and economic development opportunities in their districts.

Although FHFA's regulation that requires the establishment of Targeted Community Lending Plans may provide a means for the FHLBanks to identify lending and economic development needs within their communities and respond accordingly, it does not specifically require the FHLBanks to analyze small business and agricultural lending needs or opportunities for the use of alternative collateral. According to FHFA officials, this is because the regulation pertains specifically to the AHP and CIP programs. Given that FHFA does not require the FHLBanks to include an assessment of opportunities to use alternative collateral to support small business and agricultural lending in their Targeted Community Lending Plans, such plans generally have not addressed such issues. One FHLBank's Targeted Community Lending Plan—that of the FHLBank of Indianapolis—did discuss issues pertaining to agricultural and small business lending. Specifically, the plan for 2010 stated that the Bank intends to increase its small business, small farm, or small agribusiness lending by 5 percent in the next year.

While FHFA officials told us that the regulation that requires the FHLBanks to develop Targeted Community Lending Plans does not pertain to alternative collateral, we note that the general process involved in creating the plans is potentially beneficial in that it calls on the FHLBanks to review relevant information and consult with stakeholders in their communities to identify and address relevant lending needs. A similar process—through revisions to FHFA's regulations pertaining to Targeted Community Lending Plans, or strategic business plans, or other measures as appropriate—that would require the FHLBanks to assess agricultural and small business lending needs as well as opportunities to use

[35]This regulation was recently relocated by the FHFA as part of the FHFA's transfer of the community support regulations from 12 C.F.R part 944 to 12 C.F.R. part 1290 and is currently codified at 12 C.F.R. § 1290.6. See 75 Fed. Reg. 678 (January 5, 2010).

alternative collateral, could better focus their attention on potential opportunities and strategies to enhance such financing.

Conclusions

GLBA's inclusion of new types of collateral for CFIs indicates that these types of available collateral should be taken in account when formulating strategies for the FHLBanks' economic development efforts. However, the regulators' limited oversight of FHLBank alternative collateral policies and practices over the years has provided the FHLBanks with wide discretion to establish risk-management policies, which although viewed as necessary to protect against potential losses may involve an off-setting trade-off. That is, they may unduly limit the appeal and use of alternative collateral.

We have identified several areas of concern. In many cases the FHLBanks have not substantiated and documented their reasons for not accepting alternative collateral or applying relatively high haircuts to it. Available FHLBank documentation suggests that some alternative collateral haircuts may be too high; limited FDIC asset valuation estimates indicate that the risks associated with alternative collateral can vary over time; and 15 of the 30 CFI representatives we interviewed expressed concerns about haircuts applied to such collateral and other risk-management practices, some of whom said such policies and practices limited their willingness to use alternative collateral. In addition, because FHFA has not leveraged its existing examination procedures to include an assessment of the FHLBanks' alternative collateral policies, the appropriateness of such policies may not be clear. Furthermore, FHFA has not ensured that all FHLBanks establish quantitative goals for products related to agricultural and small business lending, which could include alternative collateral, in their strategic business plans as required by the agency's regulations. Finally, FHFA has not taken steps, such as revising its regulations pertaining to Targeted Community Development Plans, or strategic business plans, or other measures as may be appropriate, to follow a process whereby they conduct market analysis and consult with a range of stakeholders in their communities to identify and address agricultural and small business financing needs, including the use of alternative collateral. We recognize that FHFA has critical responsibilities to help ensure that the FHLBanks' operate in a safe and sound manner, and has not focused on alternative collateral because it was not deemed a risk to safety and soundness. Nevertheless, the agency also has an obligation to take reasonable steps to help ensure that the FHLBank System is achieving the missions for which it was established, including economic development through the use of alternative collateral.

Recommendations for Executive Action

We recommend that the Acting Director of FHFA take the following actions to help ensure that the FHLBanks' economic development mission-related activities include the appropriate use of alternative collateral, as provided for in GLBA.

- Revise FHFA examination guidance to include requirements that its examiners periodically assess the FHLBanks' alternative collateral policies and practices, similar to the manner in which other forms of collateral, such as single-family mortgages, are assessed. Specifically, FHFA should revise its guidance to ensure that examiners periodically assess the FHLBanks' analytical basis for either (1) not accepting alternative collateral, or (2) establishing their haircuts and other risk-management policies for such collateral.
- Enforce regulatory requirements that the FHLBanks' strategic business plans include quantitative performance goals for products related to agricultural and small business financing, including the use of alternative collateral as appropriate.
- Consider requiring the FHLBanks, through a process of market analysis and consultations with stakeholders, to periodically identify and address agricultural and small business financing needs in their communities, including the use of alternative collateral. Such requirements could be established through revisions to FHFA's regulations for Targeted Community Development Plans or strategic business plans or through other measures as deemed appropriate.

Agency Comments and Our Evaluation

We provided a draft of this report to FHFA for its review and comment. We received written comments from FHFA's Acting Director, which are reprinted in appendix II. In its comments, FHFA expressed certain reservations about the analysis in the draft as discussed below, but agreed to implement our recommendations. Specifically, FHFA stated that the agency would (1) review each FHLBank's policies and practices, starting with the 2011 annual supervisory examination cycle, to assure that they can substantiate their collateral practices and are meeting their CFI members' liquidity needs; (2) issue an Advisory Bulletin to the FHLBanks that provides supervisory guidance on how to include goals for alternative collateral in the preparation of FHLBank strategic business plans beginning in 2011, and review those plans to ensure they include such goals; and (3) direct the FHLBanks to document their outreach and alternative collateral needs assessment efforts in their strategic business plans, and instruct examiners to monitor the FHLBanks' efforts in these areas as part of the agency's ongoing supervisory review. FHFA also provided technical comments, which we incorporated as appropriate.

In commenting on the draft report, FHFA said that it has no evidence that any CFI member is collaterally constrained and unable to access advances as a result of the FHLBanks' collateral risk management practices. FHFA also said that it has no evidence that any issues discussed in the draft report have resulted in or contributed to a lack of liquidity for small farm, agriculture, and small business lending. In addition, FHFA noted that in many cases, CFI members obtain sufficient liquidity by pledging real estate-related collateral and, therefore, CFI members' ability to obtain an advance is not limited by the type of collateral they have. While our draft report noted that most CFIs may not be collaterally constrained, we identified nearly 800 CFIs, constituting about 13 percent of all CFIs, that may face challenges in obtaining an advance using traditional collateral because they have substantial amounts of small business and agricultural collateral on their books. Further, we interviewed a nongeneralizable sample of 30 of these CFIs and found that half of them expressed concerns with FHLBank haircuts and other policies related to alternative collateral. Several CFIs said that the haircuts applied to alternative collateral were a factor in their decision not to pledge alternative collateral to secure an advance. In agreeing to implement the recommendations, FHFA will have the information necessary to help assess the extent to which CFIs may face challenges in obtaining financing as well as the appropriateness of FHLBank alternative collateral policies and practices.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to other interested congressional committees and to the Acting Director of the Federal Housing Finance Agency. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staff have any questions regarding this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

William B. Shear

William B. Shear
Director, Financial Markets
and Community Investment

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to (1) discuss factors that may limit the use of alternative collateral to secure Federal Home Loan Bank (FHLBank) advances; and (2) assess selected aspects of the Federal Housing Finance Agency's (FHFA) oversight of the FHLBanks' alternative collateral policies and practices.

To address the first objective, we reviewed relevant sections of the Gramm-Leach-Bliley Act of 1999, the Housing and Economic Recovery Act of 2008, and FHLBank collateral policies and procedures, particularly those pertaining to alternative collateral. While we were able to review each FHLBank's collateral policies and procedures, the confidentiality of such information limited what we could publicly disclose in our report. Specifically, because the collateral haircut policies of some of the FHLBanks generally are considered to be proprietary, we were unable to specify the policies of individual FHLBanks. Where appropriate, we used an alphabetic system when discussing FHLBank collateral policies and limited discussion of details to ensure the protection of the FHLBanks' identities. We also conducted interviews with representatives from FHFA, the regulator of the FHLBank System; the 12 FHLBanks; the Council of Federal Home Loan Banks; the Independent Community Bankers of America; and obtained information from a nongeneralizable, random sample of 30 Community Financial Institutions (CFI).

To develop the nongeneralizable, stratified random sample of 30 CFIs, we first identified the population of CFIs that may have limited sources of traditional collateral to secure FHLBank advances. To identify CFIs that may have relatively large volumes of agriculturally related loans on their books, we used the Federal Deposit Insurance Corporation's (FDIC) definition of an agricultural bank; that is, a bank having 25 percent or more of its loans associated with agricultural lending. FHFA provided a list of 6,281 CFI members as of September 30, 2009—of which 470 met FDIC's definition of an agricultural bank, meaning that they held at least 25 percent of their assets in agricultural loans. (We note that the report includes updated data on agricultural banks as of year-end 2009.) To identify CFIs that may have relatively large volumes of small business loans on their books, we used information from the Small Business

Administration's (SBA) Office of Advocacy.[1] Specifically, because there is no similar threshold to define a small business lender, we used the SBA's Office of Advocacy's determination of the top 10 percent of small business lenders in each state to determine the small business sample population. We then matched and merged this list of institutions, by institution name, with FHFA's list of CFI members. The resulting list included 326 small business CFIs and their total assets for each FHLBank district. The final sample population of agricultural and small business CFIs totaled 796. From this final sample population, we identified 10 lenders that met the definition of both an agricultural and small business CFI. We sampled this dual-status CFI population separately because of its potential to provide a unique perspective on alternative collateral in the FHLBank System.

Our sample was stratified to ensure that it included the perspective of CFIs located in FHLBank districts that had (1) high, some, or no use of alternative collateral, as of year-end 2008; and, (2) banks that are very small, meaning less than $100 million in total assets. We defined an FHLBank as having had a "high" acceptance of alternative collateral if it accepted more than $500 million in alternative collateral in 2008; "some" acceptance if it accepted from $1 to $500 million in alternative collateral in 2008; and "no" acceptance if it accepted no alternative collateral ($0) in 2008. We then over sampled within each stratum to accommodate refusals to participate and randomly selected a nongeneralizable sample of 30 CFIs (see table 6).

[1] In a 2009 study, SBA's Office of Advocacy identified the largest small business lenders by state based, in part, on the percentage of small business loans (defined as loans with a value of $1 million or less) in their business loan portfolios. See Small Business Administration, Office of Advocacy, *Small Business and Micro Business Lending in the United States for Data Years 2007-2008*, (Washington, D.C., May 2009).

Table 6: Characteristics of GAO's Nongeneralizable, Random Sample of 30 CFIs

FHLBank district	Level of acceptance of alternative collateral	Small business CFI	Agricultural CFI	Dual-status CFI
Atlanta	None	2	—	—
Boston[a]	Some	—	—	—
Chicago	Some	2	5	—
Cincinnati	None	1	1	—
Dallas	High	1	—	1
Des Moines	High	1	4	1
Indianapolis	Some	1	—	—
New York[a]	None	—	—	—
Pittsburgh	None	2	—	—
San Francisco	High	1	—	—
Seattle	Some	2	2	—
Topeka	High	1	1	1
Total		**14**	**13**	**3**

Source: GAO.

[a]While our sample included CFIs from the Boston and New York FHLBank districts, no CFIs from these districts agreed to participate in our interviews.

To obtain information from the CFIs in our sample, we used a Web-based protocol to conduct structured telephone interviews. The majority of responses, 29, were obtained by telephone; and 1 was obtained by e-mail. We used data from FHFA on the use of alternative collateral throughout the FHLBank System and information from our interviews with the 12 FHLBank representatives to develop our structured interview. We pretested the structured interview protocol and made revisions as necessary. Questions from the structured interview focused on the background and local economies of the CFIs, their use of products and services from their local FHLBank, and their views of and experience with pledging alternative collateral to obtain an advance from an FHLBank. The views expressed by representatives of the CFIs in our sample cannot be generalized to the entire population of all CFIs.

To present details and illustrative examples regarding the information obtained from the CFI interviews, we analyzed the narrative (open-ended) and closed-ended responses and developed summaries. These summaries were then independently reviewed to ensure that original statements were accurately characterized.

To assess the FHFA and FDIC data used in our analyses, we interviewed agency officials knowledgeable about the data. In addition, we assessed FHFA, FDIC, and SBA's Office of Advocacy data for obvious outliers and missing information. To assess the accuracy of the SBA's Office of Advocacy and FHFA data, we compared a sample of it against public information from the Federal Financial Institutions Examination Council's Uniform Bank Performance Report, which is an analytical tool created for bank supervisory, examination, and management purposes and can be used to understand a bank's financial condition. We determined that the data were sufficiently reliable for the purpose of this engagement.

For the second objective, we reviewed FHFA's examination policies and procedures and federal internal control standards, as well as a total of 23 FHFA and Federal Housing Finance Board (the FHFA predecessor) examinations covering each of the 12 FHLBanks over the past three examination cycles. We reviewed FHFA's regulation pertaining to the development of strategic business plans and we reviewed 11 FHLBanks' plans for 2010; and 1 plan submitted for 2009 because it was the most recently available for that FHLBank. Additionally, we reviewed FHFA's regulation pertaining to the development of Targeted Community Lending Plans and we reviewed each of the 12 FHLBanks' plans for 2010. We also discussed FHFA's oversight program for alternative collateral with senior agency officials.

Finally, we conducted limited analysis to gain a perspective on the level of FHLBank haircuts applied to alternative collateral. To do so, we obtained and reviewed documentation of analyses from 3 FHLBanks; the other 9 FHLBanks generally did not provide such documentation. Confidentiality considerations limited the amount of information we could disclose about the analyses from the 3 FHLBanks that provided documentation. We also obtained and analyzed data from FDIC on the estimated losses from banks that failed or were on the verge of failure, by various loan types, for the period January 2009 through February 2010. These data were obtained through asset specialists who were contracted by FDIC to review the asset portfolios of failed institutions and to develop anticipated loss rates, expressed as a percentage of outstanding loan balances, on the various categories of the banks' asset portfolios. As discussed in this report, this approach has several important limitations, including not providing a historical basis for estimating the risks associated with alternative collateral over time or controlling for any other factors that may be related to the characteristics of the loans made by the banks. To assess the reliability of the FDIC data, we interviewed agency officials knowledgeable about the data. In addition, these data are corroborated by information from our CFI interviews and several independent reports which suggest that the agricultural sector has performed somewhat better than the broader economy in recent years. We determined that the data were sufficiently reliable for the purpose of this engagement, which was to understand the FHLBanks collateral haircuts relative to the recent performance of alternative collateral assets in the financial markets.

We conducted this performance audit from October 2009 to July 2010, 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.

Appendix II: Comments from the Federal Housing Finance Agency

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

July 9, 2010

Mr. William B. Shear
Director
Financial Markets and Community Investment
Government Accountability Office (GAO)
441 G Street, NW
Washington, DC 20548

Dear Mr. Shear:

Thank you for the opportunity to review and comment on the Government Accountability Office (GAO) Report, *Federal Housing Finance Agency: Oversight of the Federal Home Loan Banks' Agricultural and Small Business Collateral Policies Could be Improved.*

During the course of its review, GAO identified steps that the Federal Housing Finance Agency (FHFA) should take to assure that the FHLBanks are providing Community Financial Institution (CFI) members sufficient access to advances through the acceptance of small business, small farm, and agricultural loans pledged as alternative collateral (hereinafter, "CFI collateral"). In addition, GAO has recommended that the FHLBanks develop effective business and outreach strategies to encourage the use of such collateral. FHFA accepts those recommendations and will implement them as detailed below.

To date FHFA has no evidence that any CFI member is collateral constrained and unable to access advances as a result of the FHLBanks' collateral risk management practices. Nor does FHFA have evidence that the issues identified by GAO have resulted in, or contributed to a lack of liquidity for small farm, agriculture, and small business lending. In many cases, CFI members obtain sufficient liquidity using real estate-related collateral for advances. As the GAO has found in its review, CFI members value the System as a source of liquidity. Their access to liquidity is not limited to the amount of advances they can receive by pledging CFI collateral.

FHFA recognizes that Congress intends for FHLBanks to allow for a broader range of eligible collateral for CFI members. At the same time, this collateral generally is less liquid and harder to value than traditional mortgages and mortgage-backed securities used as collateral. Thus, both as a practical business matter and a matter of safety and soundness, FHFA generally would expect relatively more reliance on mortgage-related collateral than other types of collateral.

The use of mortgage-related collateral by CFIs may make the data on CFI collateral pledged by member institutions difficult to interpret. For example, the GAO study is correct in stating that at

1700 G Street, N.W., Washington, D.C. 20552-0003 • 202-414-3800 • 202-414-3823 (fax) year-end 2008 CFI collateral was approximately one percent of total collateral directly and specifically pledged to the FHLBanks for advances outstanding. However, the FHLBanks have accepted an additional $158 billion of CFI collateral, constituting more than 11 percent of total reported collateral against which future advances could be secured.

The FHFA's detailed responses to the GAO's recommendations are discussed below.

GAO Recommendations for Executive Action: The GAO recommends that the Acting Director of FHFA take the following actions:

- **Revise the FHFA examination guidance to include requirements that its examiners periodically assess the FHLBanks' alternative collateral policies and practices. Specifically, FHFA should ensure that examiners periodically assess the FHLBanks' analytical basis for either (1) not accepting alternative collateral, or (2) establishing their haircuts and other risk-management policies for such collateral.**

FHFA Response: The FHFA accepts the intent of the GAO's recommendation but notes that the authority and responsibility to periodically review the FHLBanks' collateral policies already exists in the FHLBank examination manual and related supervisory guidance. The FHFA believes a supervisory Advisory Bulletin to the Banks would achieve the end sought by the GAO. Commencing with the 2011 annual supervisory examination cycle of the FHLBanks, and thereafter as warranted, the FHFA will review each FHLBank's policies and practices to assure that the FHLBanks are serving their CFI members' need for advances, and, that the FHLBanks can substantiate their collateral acceptance, discount and risk management practices.

- **Enforce regulatory requirements that the FHLBanks' strategic business plans include quantitative performance goals for products related to agricultural and small business financing, including the use of alternative collateral as appropriate.**

FHFA Response: By October 31, 2010, the FHFA will issue an Advisory Bulletin providing supervisory guidance to the FHLBanks on the preparation of their strategic business plans to include goals for CFI collateral commencing with their 2011 strategic business plans. FHFA will review the FHLBanks' strategic business plans to ensure they include quantitative goals for CFI collateral.

- **Consider requiring the FHLBanks, through a process of market analysis and consultations with stakeholders, to periodically identify and address agricultural and small business financing needs in their communities, including the use of alternative collateral. Such requirements could be established through revisions to FHFA's regulations pertaining to Targeted Community Development Plans or strategic business plans or through other measures as deemed appropriate.**

FHFA Response: As previously mentioned, the FHLBanks' market analysis and outreach plans will be included in the FHLBanks' strategic business plans and each FHLBank's progress will be monitored as part of the FHFA's review of the FHLBanks' strategic business plan accomplishments. FHFA examiners and analysts will monitor the FHLBanks' outreach and CFI collateral needs assessment efforts as part of FHFA's ongoing supervisory review, both for safety and soundness and for mission fulfillment.

If you have any questions, please Stephen Cross, Deputy Director Division of Bank Regulation at 202-408-2980 or Sylvia Martinez, Senior Adviser, at (202) 408-2825.

Sincerely,

Edward J. DeMarco

Edward J. DeMarco
Acting Director

xc: Stephen Cross, Chief Operating Officer
Paula Hayes, Deputy Chief Operating Officer

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the individual named above, Wesley M. Phillips, Assistant Director; Benjamin Bolitzer; Tiffani Humble; Ronald Ito; Fred Jimenez; Grant Mallie; Timothy Mooney; Linda Rego; Barbara Roesmann; Jerome Sandau; and Rebecca Shea made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, http://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548