



May 2015

FEDERAL HOME LOAN BANKS

Information on Governance Changes, Board Diversity, and Community Lending

Accessible Version

Why GAO Did This Study

In 2014, the FHLBank System had over 7,300 member institutions and approximately \$570 billion of loans (advances) outstanding. The system consists of 12 regionally based banks that are cooperatively owned by member institutions. Its mission is to serve as a reliable source of liquidity for members to support housing finance and community lending. In 2014, each FHLBank had a board of 14 to 19 directors that includes elected directors from member institutions and independent directors from outside the system, including at least 2 with consumer or community interests.

GAO was asked to review legislative changes to FHLBank governance and the diversity of the FHLBanks' boards of directors. This report discusses (1) the governance changes and their implementation; (2) FHLBank boards' diversity; (3) FHLBank and FHFA efforts to improve diversity; and (4) community lending programs and boards' oversight of them. GAO analyzed FHLBank data and reviewed bylaws, policies, board meeting minutes, and regulations. GAO also reviewed previous work on diversity in the financial services industry, as well as literature on governance and diversity, and surveyed all 189 FHLBank directors serving in 2014 (with a 94 percent response rate). GAO interviewed FHLBank management and staff, board directors, and advisory councils at six FHLBanks selected by number of member institutions, asset size, volume and type of community lending activities, and location.

View [GAO-15-435](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

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What GAO Found

The Housing and Economic Recovery Act (HERA) of 2008 changed several aspects of the Federal Home Loan Bank System's (FHLBank System) governance. Among other things, HERA required that independent directors on the FHLBank boards be elected by member institutions (for example, commercial banks, thrifts, credit unions, and insurance companies) rather than appointed by the regulator. HERA also added certain skill requirements, removed compensation caps, and created a new regulator for the system, the Federal Housing Finance Agency (FHFA). FHFA fully implemented the governance changes through two rules in 2009 and 2010. Board directors, FHLBank representatives, and others generally view HERA's governance changes as positive because the changes give FHLBank boards' greater control over nominees and help ensure that candidates have specific skills and experience.

Women and minority representation on FHLBank boards is limited (see figure). A woman chaired 1 of 12 FHLBank boards in 2014, but no racial or ethnic minorities did. Most women and racial or ethnic minorities were independent directors rather than member directors. Directors' skill sets were more diverse. For example, member directors responding to GAO's survey were more likely than independent directors to report having skills in accounting and banking. Independent directors were more likely to report having skills in project development, community and economic development, and affordable housing.

Women and Minority Representation on Federal Home Loan Bank Boards, 2014



Source: GAO analysis of Federal Home Loan Bank data. | GAO-15-435

FHLBanks and FHFA have taken steps to increase board diversity. Since HERA's enactment, FHLBanks and their boards have developed processes to identify and nominate independent directors. GAO found that these processes generally followed several commonly cited practices for improving diversity, such as diversifying the applicant pools for directors. A 2009 FHFA rule encourages FHLBanks to consider diversity when selecting candidates, and a 2015 rule requires the FHLBanks to report information on board diversity in their annual reports. FHFA plans to begin evaluating board data and other information on outreach activities related to board diversity.

Community lending varies across the FHLBanks. For example, 6 of the 12 FHLBanks offer unique community lending programs in addition to the system-wide programs. Under the Community Investment Program, which provides funds for housing and economic development, 4 of the 12 FHLBanks used the funds for economic development in 2014. FHLBanks have committees that are responsible for overseeing these activities, and, according to GAO survey results, directors serving on these committees have greater responsibility for overseeing community lending programs.

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Abbreviations

AHP	Affordable Housing Program
CDFI	community development financial institutions
CICA	Community Investment Cash Advance
CIP	Community Investment Program
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
FHLBank System	Federal Home Loan Bank System
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989

HERA
OMWI
SEC

Housing and Economic Recovery Act of 2008
Office of Minority and Women Inclusion
Securities and Exchange Commission

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May 12, 2015

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Carolyn Maloney
Ranking Member
Subcommittee on Capital Markets and
Government-Sponsored Enterprises
Committee on Financial Services
House of Representatives

The Honorable Keith Ellison
House of Representatives

In 2014, over 7,300 financial institutions were members of the Federal Home Loan Bank System (FHLBank System) and had approximately \$570 billion in loans, known as advances, outstanding. The System's mission is to serve as a reliable source of liquidity for members (financial institutions such as commercial banks, thrifts, credit unions, and insurance companies) in support of housing finance and community lending.¹ To carry out its mission, the FHLBank System issues debt in capital markets, generally at relatively favorable rates due to its status as a government-sponsored enterprise, and each FHLBank makes loans known as advances to its member financial institutions. The Housing and Economic Recovery Act (HERA) of 2008 elevated the importance of diversity at the FHLBanks in an effort to promote a diverse workforce. HERA required that each FHLBank create an Office of Minority and Women Inclusion or designate an office of the FHLBank to perform those duties. Although this requirement mainly focused on improving diversity of the FHLBanks' workforces and among its vendors, corporate governance

¹This mission is defined by the new regulator that the Housing and Economic Recovery Act of 2008 created, the Federal Housing Finance Agency (FHFA). FHFA defines community lending to include financing for economic development projects for targeted beneficiaries. FHFA defines economic development projects to include (1) commercial, industrial, manufacturing, social service, and public facility projects and activities; and (2) public or private infrastructure projects.

organizations and others have highlighted the importance of achieving a diverse boardroom that can leverage different perspectives and backgrounds in order to strengthen corporate governance.² As the U.S. workforce has become increasingly diverse, many private and public sector organizations have recognized the importance of recruiting and retaining minority and women candidates for key positions. However, diversity in key management-level positions in the financial services industry and in boardrooms continues to raise questions. A diverse group can better represent the views and perspectives of community members and meet community needs—an important element to ensure the FHLBanks are meeting their broad mission to support housing finance and community lending. Further, from the inception of the FHLBank System in 1932, the System's regulator had appointed certain board director positions, but HERA changed this so that boards now nominate candidates, who then must be elected by the members at large.³ Finally, HERA created the Federal Housing Finance Agency (FHFA), an agency that replaced the Federal Housing Finance Board as the regulator of the FHLBanks. In light of HERA's changes and ongoing interest in diversity at the boardroom level, we were asked to review FHLBank board governance, including diversity on the FHLBanks' boards.

This report discusses (1) HERA's governance changes and their implementation; (2) diversity on FHLBank boards and challenges that the banks have faced in trying to increase it; (3) efforts that FHLBanks and FHFA have taken to improve diversity; and (4) FHLBanks' community lending programs and the boards' oversight of them. For the purposes of this report, the concept of diversity includes representation by gender, race, ethnicity, and can encompass differences in backgrounds, skill sets, and experience.

²For example, in 2009 the U.S. Securities and Exchange Commission issued a rule requiring public companies to disclose the extent to which their boards considered diversity when nominating directors. Proxy Disclosure Enhancements, 74 Fed. Reg. 68334 (Dec. 23, 2009); Deborah L. Rhode and Amanda K. Packel, "Diversity on Corporate Boards: How Much Difference Does Difference Make?" *Delaware Journal of Corporate Law*, vol. 39, no. 2 (2014); and National Association of Corporate Directors, *Report of the NACD Blue Ribbon Commission - The Diverse Board: Moving From Interest to Action* (October 2012).

³Pub. L. No. 110-289, § 1202, 122 Stat 2654, 2783 (2008).

To address these objectives, we reviewed relevant laws, including information about FHLBank governance in the Federal Home Loan Bank Act (Bank Act); the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA); the Gramm-Leach-Bliley Act; HERA; and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Additionally, we reviewed FHFA's regulations, including final rules on director eligibility, elections, and compensation, and interviewed FHFA officials to determine the extent to which HERA's changes to governance had been implemented. Because demographic information was not publicly available for FHLBank board directors, we requested information from the FHLBanks. Specifically, we sent a request to each FHLBank to collect data on the number of men, women, racial or ethnic minorities, non-racial or nonethnic minorities, and the total number of board directors who served during 2014. The responses we received from the FHLBanks were generally based on observation. Additionally, we surveyed all 189 directors who served on the 12 FHLBank boards in 2014 to obtain information on the directors' roles and responsibilities and opinions on HERA's changes, as well as on diversity on the FHLBank boards. We received completed surveys from 178 board directors, for a 94 percent response rate. Our survey to 2014 board directors asked respondents to self-identify gender, origin, and race. In this report, for data on the number of women and racial or ethnic minorities, we relied on information provided by each of the FHLBanks because some survey respondents chose not to self-identify their gender, origin, or race.

We also reviewed the most recent (2013) FHFA data on board director compensation for each of the 12 FHLBanks. Additionally, we conducted 30 semistructured interviews with representatives from 6 of the 12 FHLBanks (Atlanta, Chicago, Dallas, Des Moines, Pittsburgh, and San Francisco) to obtain information from a cross-section of FHLBanks. We selected these FHLBanks using several criteria, including asset size, number of member institutions, information about female and minority representation on boards (as available), amount of community and economic development lending activity, and location. For each of the six FHLBanks, we held group interviews with bank management and staff and representatives from the FHLBanks' advisory councils, which provide advice to the FHLBank boards on affordable housing and community lending. Additionally, we conducted individual interviews with three board directors from each of the six FHLBanks.

For all 12 FHLBanks, we reviewed relevant information about board directors and governance in bylaws, board meeting minutes, committee charters, annual reports, U.S. Securities and Exchange Commission

(SEC) filings (form 10-K), and other related FHLBank documents, such as those detailing policies and procedures for identifying, nominating, and selecting board directors. We compared FHLBanks' and FHFA's diversity practices against some commonly cited practices for increasing board diversity. To identify commonly cited practices to improve board diversity, we performed a literature review of corporate governance and diversity studies and reviewed our previous work on diversity in the financial industry and on Federal Reserve Bank boards.⁴ We also reviewed studies and interviewed representatives from corporate governance organizations and academic researchers, including Catalyst, The Conference Board, the National Association of Corporate Directors, Stanford University's Rock Center for Corporate Governance, and Harvard Business School. We selected those practices that were most applicable to FHLBanks and FHFA.⁵

We reviewed available information and FHFA data on affordable housing and community and economic development programs. To assess the reliability of FHFA data, we reviewed information about the data and the systems that produced them, interviewed FHFA officials about their methods of assessing the reliability of data on affordable housing and community lending programs, and reviewed the data ourselves to assess completeness and look for inconsistencies. We also reviewed SNL Financial data for information on FHLBank total advances from 2009 through 2014 to assess conditions post-HERA. We determined that the data were sufficiently reliable for the purposes of this report. In addition, we reviewed documentation from FHLBanks, including collateral and credit policies, community lending plans, and strategic business plans, to determine policies and programs related to community and economic

⁴See GAO, *Diversity Management: Trends and Practices in the Financial Services Industry and Agencies After the Recent Financial Crisis*, [GAO-13-238](#) (Washington, D.C.: Apr. 16, 2013); *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2008*, [GAO-10-736T](#) (Washington, D.C.: May 12, 2010); *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004*, [GAO-06-617](#) (Washington, D.C.: June 1, 2006); *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, [GAO-05-90](#) (Washington, D.C.: Jan. 14, 2005); and *Federal Reserve Bank Governance: Opportunities Exist to Broaden Director Recruitment Efforts and Increase Transparency*, [GAO-12-18](#) (Washington, D.C.: Oct. 19, 2011). Additionally, we have ongoing work reviewing gender diversity on boards of U.S. publicly traded corporations.

⁵Because FHLBanks are not publicly traded companies, some practices were not applicable.

development. We interviewed representatives from the Council of the FHLBanks—the trade association of the 12 FHLBanks. Finally, we interviewed representatives of trade associations to which FHLBank members belonged, including the American Bankers Association, Independent Community Bankers Association, Community Development Bankers Association, Credit Union National Association, and National Federation of Community Development Credit Unions. Appendix I describes our objectives, scope, and methodology in greater detail.

We conducted this performance audit from June 2014 to May 2015 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.

Background

Overview of the FHLBank System

The FHLBank System, established in 1932 by the Federal Home Loan Bank Act, is a group of government-sponsored enterprises comprising 12 regional, federally chartered banks.⁶ Each FHLBank is cooperatively owned by its members—such as commercial and community banks, thrifts, credit unions, and insurance companies. The FHLBanks represent 12 districts located in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, New York, Pittsburgh, San Francisco, Seattle, and Topeka.⁷ As of year-end 2014, over 7,300 financial institutions were members of the FHLBank System. The number of members in individual FHLBank districts ranged from 303 to 1,155, with the FHLBank of Pittsburgh having the fewest members and Des Moines the most. In

⁶As defined in federal regulations, the FHLBank System also includes the Office of Finance—the fiscal agent for the 12 banks. Governance matters related to the Office of Finance are not within the scope of this report.

⁷As of April 2015, two of the FHLBanks are in negotiations to merge—Des Moines and Seattle. According to FHFA, board directors from each of the banks and FHFA's director have approved the merger. According to the FHLBanks of Des Moines and Seattle, their member institutions ratified the merger on February 27, 2015. FHFA told us that the merger would likely not be finalized until summer 2015.

2014, the 12 FHLBanks had approximately \$914 billion in assets, with asset size ranging from \$35 billion (Seattle) to \$138 billion (Atlanta).

FHLBank members included commercial banks (66 percent of all members), credit unions (17 percent), thrifts (12 percent), insurance companies (4 percent), and certified community development financial institutions (CDFI) (less than 1 percent).⁸ Eligible financial institutions may become members of the FHLBank, generally in the district where they have their principal place of business. For example, if a financial institution's home office is in Hartford, Connecticut, the institution would join the FHLBank of Boston. However, subsidiaries of financial institutions' holding companies may be members of the same or of a different FHLBank, depending on where the subsidiary's principal place of business is located. Eligible financial institutions become members through an application process and, once approved, purchase stock in their regional FHLBank.⁹

The FHLBank System issues debt securities in capital markets, generally at relatively favorable rates made possible by the system's status as a government-sponsored enterprise.¹⁰ Buyers of FHLBank debt securities represent the entire spectrum of domestic and international investors, including commercial banks, central banks, investment managers, major corporations, pension funds, government agencies, and individuals. The FHLBanks do not engage in lending to the public but instead provide loans to lenders to support housing finance and community lending. These loans, or advances, to member institutions are primarily collateralized by residential mortgage loans. Some member institutions also may pledge small business, small farm, and small agribusiness loans as collateral.¹¹ In addition to the advances, FHLBank members also have

⁸CDFIs have the primary mission of providing capital and development services to economically distressed communities generally underserved by conventional financial institutions.

⁹This stock is not publicly traded and is held at par value by the regional FHLBanks. Annually, based on the FHLBank's capital plan, the members must maintain minimum stock investments in FHLBanks as well.

¹⁰The FHLBanks fund themselves principally by issuing consolidated obligations of the FHLBank System in the public capital markets through the Office of Finance.

¹¹See GAO, *Federal Housing Finance Agency: Oversight of the Federal Home Loan Banks' Agricultural and Small Business Collateral Policies Could Be Improved*, [GAO-10-792](#) (Washington, D.C.: July 20, 2010).

the ability to earn dividends on purchased capital stock and access to various products and services, such as letters of credit and payment services.

Housing and Community Lending Programs

Beginning in 1989, Congress expanded the FHLBanks' role and responsibilities. FIRREA created two principal housing and community lending programs—the Affordable Housing Program (AHP) and the Community Investment Program (CIP)—in addition to community support programs.¹² Other community lending programs may be voluntarily offered by the FHLBanks under the Community Investment Cash Advance (CICA) program regulations, which were issued by the Federal Housing Finance Board (now FHFA) from an authority in FIRREA that authorized other community lending programs. AHP and CIP are required programs under FIRREA, while other CICA programs are voluntary.

Under AHP, each FHLBank is required to set aside 10 percent of its previous year's earnings, or the prorated sum required to ensure the aggregate contribution to the FHLBanks is no less than \$100 million for each year, to fund subsidies for affordable housing targeting individuals and families with very low, low, and moderate incomes.¹³ AHP is divided into two separate funding streams—a competitive application program and a separate elective homeownership set-aside grant program. Under the competitive application program, member institutions submit an application for a subsidy on behalf of a housing project's sponsor, typically a nonprofit housing corporation. FHLBanks can provide the subsidy as a grant or as an advance with a reduced interest rate. Organizations typically use the funds to help fully finance a project by

¹²Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Title VII, 103 Stat. 183, 411 (1989). FIRREA amended Section 10 of the Federal Home Loan Bank Act by requiring each FHLBank to establish AHP and CIP. 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 do certain things including 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.

¹³The subsidy may be in the form of a grant or a subsidized interest rate on a secured loan from an FHLBank to a member lender. According to statute, low- or moderate-income households are defined as households with incomes of 80 percent or less of area median income. Very low-income household means any household that has an income of 50 percent or less of the area median.

combining them with other programs and funding sources, such as the Low-Income Housing Tax Credit and investments from private developers.¹⁴ The competitive application program generally constitutes at least 65 percent of an FHLBank's required annual contribution to supporting affordable housing. Under the homeownership set-aside program, member institutions apply to their FHLBanks for grants then disburse those grants to homeowners. At least one-third of the annual set-aside contribution must be allocated to first-time homebuyers.

CIP provides member institutions with advances and letters of credit for housing, economic development, and mixed-use projects. CIP offers flexible advance terms for members to undertake community-oriented mortgage lending. The price of advances made under CIP shall not exceed the FHLBank's cost of issuing consolidated obligations of comparable maturity, taking into account reasonable administrative costs.¹⁵ Letters of credit, which support obligations to third-party beneficiaries on behalf of members, help facilitate residential housing financing and community lending and may provide liquidity or other funding, among other purposes. Finally, under the voluntary CICA programs, FHLBanks offer advances, letters of credit, and grants for economic development that are targeted to small business concerns, or geographies, or households at specified income levels.

FIRREA also created advisory councils for the FHLBanks—made up of 7 to 15 persons from each district and drawn from community and nonprofit organizations that are actively involved in providing or promoting low- and moderate-income housing or community lending. The advisory councils meet with representatives of the FHLBank's board of directors at least quarterly to provide advice on ways in which the FHLBank can carry out its housing finance and community lending mission. They also submit an annual analysis to FHFA on the low- and moderate-income housing and community lending activities of their FHLBank.

In 1999, Congress enacted the Gramm-Leach-Bliley Act, which, among other things, expanded collateral requirements and authorized FHLBanks

¹⁴The Low-Income Housing Tax Credit is the federal government's primary program for encouraging the investment of private equity in the development of affordable rental housing for low-income households.

¹⁵12 C.F.R. § 1292.5(d)(2).

to accept alternative forms of collateral, such as agricultural and small business loans, from small members known as community financial institutions.¹⁶ The goal of these reforms 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. In so doing, the reforms were targeted to help improve economic development credit opportunities in rural areas and other underserved communities.

FHLBanks' Regulation, Supervision, and Reporting

FHFA's role is to ensure that the FHLBanks operate in a financially safe and sound manner consistent with their housing finance mission. FHFA's Division of Bank Regulation is responsible for conducting on-site annual examinations and off-site monitoring of the FHLBanks.¹⁷ As part of these examinations and monitoring, FHFA is to evaluate the quality of corporate governance by board directors, review board and committee meeting minutes, and monitor the directors' compensation packages.¹⁸ FHFA's oversight responsibilities also include

- assessing FHLBank compliance with regulations and consistency with FHFA guidance;
- examining the FHLBank System's fiscal agent—the Office of Finance—and monitoring its debt issuance activities;
- issuing an annual report to Congress that includes information on examination findings and any regulatory guidance for the 12 FHLBanks;¹⁹ and

¹⁶Community financial institutions are defined as any FHLBank member with total assets up to \$1.1 billion for 2015 whose deposits are insured by the Federal Deposit Insurance Corporation. GAO, *Federal Home Loan Banks: Collateral Requirements Discourage Some Community Development Financial Institutions from Seeking Membership*, [GAO-15-352](#) (Washington, D.C.: Apr. 23, 2015).

¹⁷Section 20 of the Federal Home Loan Bank Act (12 U.S.C. § 1440) requires each FHLBank to be examined at least annually.

¹⁸FHFA's examination manual contains a section that covers FHLBank boards of directors.

¹⁹See FHFA, *Report to Congress 2013*, June 13, 2014.

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- reporting annually on the FHLBanks' activities in affordable housing and community development.²⁰

FHFA's Office of Inspector General has also reported on certain aspects of the FHLBanks, including the AHP and advances made to the largest institutions.²¹ Additionally, HERA codified the requirement that FHLBanks register a class of its common stock and comply with SEC disclosure requirements.²² As a result, FHLBanks must file periodic and annual financial reports and other information (such as annual and quarterly reports, forms 10-K and 10-Q) with SEC.

HERA required the FHLBanks to promote diversity and the inclusion of women and minorities in all activities and gave FHFA certain regulatory oversight and enforcement authority to broadly encourage diversity in employment, contracting, and all business and activities.²³ After HERA, Congress enacted the Dodd-Frank Act. The Dodd-Frank Act required that FHFA, as well as other financial regulatory agencies, establish and staff a separate Office of Minority and Women Inclusion (OMWI) to carry out diversity requirements.²⁴ Among other things, the Dodd-Frank Act's diversity provisions require the OMWI director to develop standards for assessing the diversity policies and practices of entities regulated by the agency, such as the FHLBanks. In response to these requirements, in

²⁰Known as the *Low-Income Housing and Community Development Activities of the FHLBanks* reports.

²¹See FHFA, Office of Inspector General, *Recent Trends in Federal Home Loan Bank Advances to JPMorgan Chase and Other Large Banks* (Washington, D.C.: April 2014); *FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Program* (Washington, D.C.: April 2013); and *An Overview of FHLBank System's Structure, Operations, and Challenges*, accessed on June 18, 2014 at <http://www.fhfaog.gov/Content/Files/FHLBankSystemOverview.pdf>.

²²Pub. L. No. 110-289, § 1112, 122 Stat. 2654, 2677 (2008); 15 U.S.C. § 780o. The provisions of HERA clarified that registration of a class of the FHLBanks equity securities under section 12(g) of the Securities Exchange Act of 1934 was no longer voluntary, but instead statutorily required.

²³Pub. L. No. 110-289, § 1116, 122 Stat. 2654, 2681 (2008).

²⁴Pub. L. No. 111-203 § 342, 124 Stat. 1376, 1441-1443 (2010). The act required several other federal financial agencies and the Federal Reserve Banks to establish the new diversity and inclusion offices to replace existing diversity programs, if ones existed, by January 2011, and to begin addressing a number of other requirements in the act. Section 342(e) of the act requires FHFA to submit an annual report to Congress on the diversity activities undertaken in certain areas.

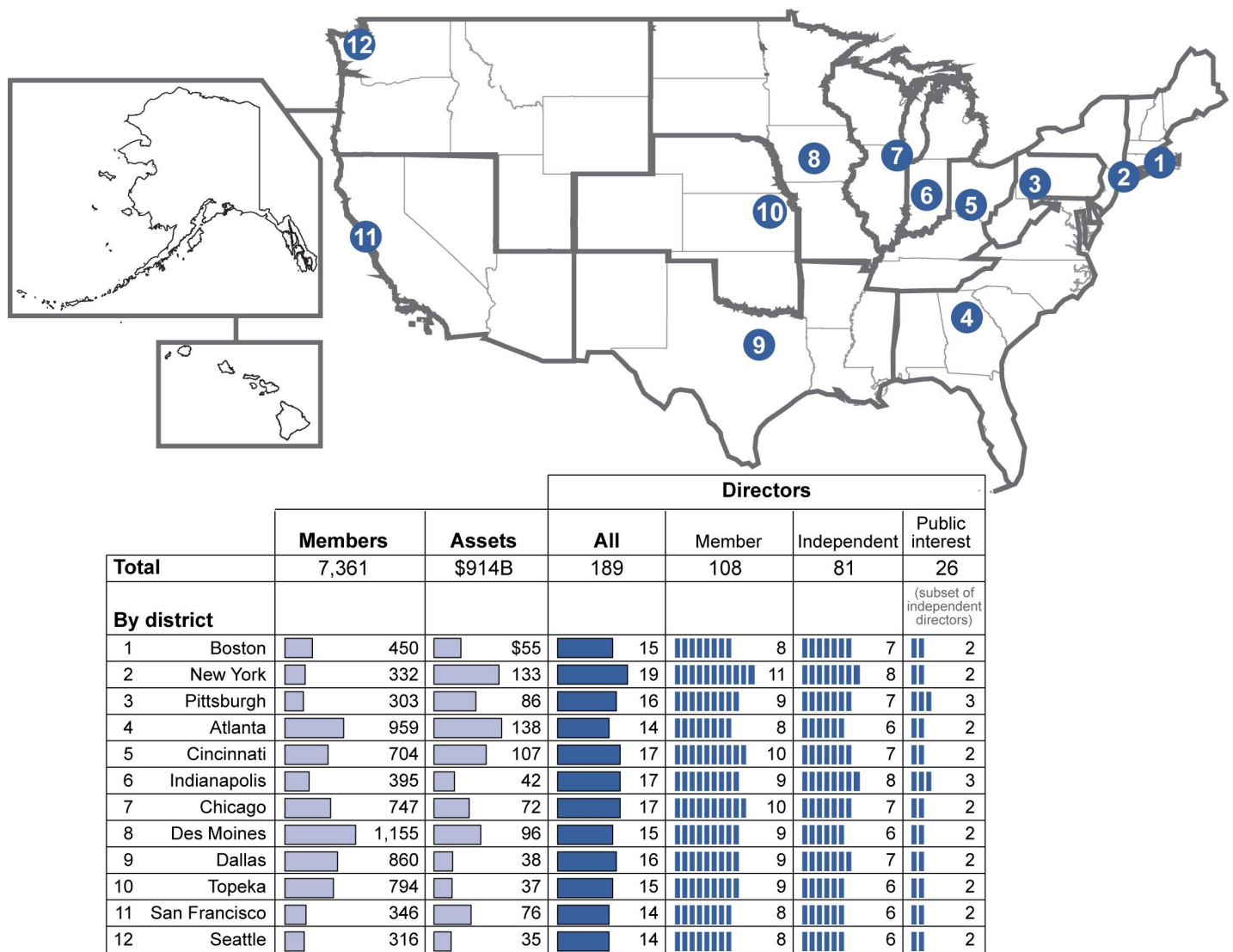
2011 FHFA established an OMWI that would be responsible for all matters related to diversity in FHFA's management, employment, and business activities. The OMWI is responsible for developing and implementing standards and procedures to promote diversity in all activities and submitting an annual report detailing the actions taken to promote diversity and inclusion.²⁵ FHFA's OMWI is tasked with helping to ensure that minorities, women, and persons with disabilities are fully included in all activities at the FHLBanks, and with helping to promote diversity on FHLBank boards of directors.

FHLBank Boards of Directors

Each bank has its own board of directors made up of member and independent directors. Member directors represent and by law must be officers or directors of member institutions. Independent directors are individuals from outside the FHLBank membership base. Additionally, at least two of the independent directors must be designated public interest directors with more than 4 years of experience in representing consumer or community interests on banking services, credit needs, housing, or financial consumer protections. In 2014, the size of the FHLBank boards ranged from 14 to 19 directors, for a total of 189 board directors across all 12 FHLBanks. Of the 189 board directors, 108 were member directors and 81 independent directors, including 26 public interest directors (see fig. 1).

²⁵See, FHFA, *Office of Minority and Women Inclusion, Annual Report to Congress*, January 2013–December 2013.

Figure 1: Federal Home Loan Bank Districts and Board Directors, 2014



Source: GAO analysis of Federal Housing Finance Agency data and information; MapInfo (map). | GAO-15-435

Note: Due to rounding, the individual assets when added together do not exactly equal the reported total assets.

Each board elects a chair and vice chair who serve 2-year terms. Of the 12 board chairs, 7 were member directors and 5 independent directors, including 1 public interest director (see table 1). Unlike the boards of publicly traded companies, which typically include company managers among their board directors, no representatives from FHLBank

management may serve on FHLBank boards. Each FHLBank has a president who reports to the bank's board of directors.²⁶

Table 1: Director Type for Board Chair and Vice Chairs, 2014

Federal Home Loan Bank	Chair	Vice chair
Boston	Independent	Member
New York	Independent	Member
Pittsburgh	Independent (public interest)	Independent
Atlanta	Member	Independent
Cincinnati	Independent	Member
Indianapolis	Member	Independent
Chicago	Member	Member
Des Moines	Member	Member
Dallas	Member	Independent
Topeka	Member	Independent
San Francisco	Independent	Member
Seattle	Member	Member

Source: GAO analysis of Federal Home Loan Bank board director information. | GAO-15-435

Two rules applicable to the FHLBanks govern the roles and responsibilities of FHLBank board directors.²⁷ The first describes the directors' general authority and powers, which include establishing and maintaining effective risk management policies, internal control systems, and strategic business plans; establishing audit committees; adopting annual operating expense budgets and a capital expenditures budget; and paying dividends; among other things. The second outlines the general responsibilities of the FHLBank board directors with respect to

²⁶The president's responsibilities include managing the FHLBank, administering the FHLBank's programs, and ensuring compliance with FHFA's regulations and policies.

²⁷First, 12 C.F.R. pt. 917 deals with powers and responsibilities of bank boards of directors and senior management. This section currently remains under the Federal Housing Finance Board regulations which remain in effect until superceded by FHFA regulations. A proposed rule to remove the entirety of this section and include some of the requirements in 12 C.F.R. pt. 1239 was issued on January 28, 2014, but had not been finalized by April 30, 2015. Responsibilities of Boards of Directors, Corporate Practices and Corporate Governance Matters, 79 Fed. Reg. 4414 (Jan. 28, 2014). Second, 12 C.F.R. pt. 1236 deals with prudential management and operating standards. These regulations have been issued by FHFA.

the management of internal controls, audit systems, asset growth, investments, and credit and counterparty risk. FHFA officials told us that board responsibilities included establishing the risk appetite of the bank (including reviewing risk exposures), overseeing bank products policies (e.g., collateral, underwriting standards, and advance policies), and overseeing executive performance. Additionally, according to FHFA's examination manual, which includes board director responsibilities, the boards are responsible for hiring and retaining senior management.

FHLBank boards typically organize themselves into committees. The boards are required to have an audit committee and typically also have committees on finance, governance, and affordable housing and economic development. Because the boards are not required to have specific committees (other than the audit committee) or a minimum number of committees, the type and number of committees and the tasks they perform vary across FHLBank boards.²⁸

Our Previous Work on Diversity

Our previous work on diversity in financial institutions has primarily focused on workforce diversity and diversity management.²⁹ In addition, we identified leading practices that should be considered when developing and implementing diversity management.³⁰ In our 2005 report, we identified a set of nine leading diversity management practices. They are (1) top leadership commitment; (2) diversity as part of an organization's strategic plan; (3) diversity linked to performance; (4) measurement; (5) accountability; (6) succession planning; (7) recruitment; (8) employee involvement; and (9) diversity training. While we developed these leading practices for workforce diversity, most are also relevant to boards of directors.

Additionally, as part of a review of Federal Reserve Bank governance, we also looked at diversity among the boards of the 12 Federal Reserve

²⁸In January 2014, FHFA issued a proposed rule that would require each FHLBank board to have certain specified committees, in addition to any other committees the board deemed appropriate. As of April 2015, this rule had not yet been finalized.

²⁹See [GAO-13-238](#), [GAO-10-736T](#), and [GAO-06-617](#).

³⁰See [GAO-05-90](#).

Banks between 2006 and 2010 and found that it was limited.³¹ In this 2011 report, we found that the Federal Reserve Banks generally reviewed the demographics of their boards and used a combination of personal networking and community outreach efforts to identify potential candidates for directors. While we found that some Federal Reserve Banks recruited more broadly, we recommended that the Board of Governors of the Federal Reserve System encourage all Reserve Banks to consider ways to help enhance the economic and demographic diversity of perspectives on the boards, including by broadening their potential candidate pool, which has been implemented.³²

HERA Made Key Governance Changes That Have Been Fully Implemented

HERA made several key changes to the FHLBank board directors. First, it changed the process for selecting independent directors. Previously, the regulator had appointed some directors. Now, for the first time since the FHLBank System's inception, FHLBank boards nominate candidates for certain director positions and FHLBank members vote for the candidates. Second, HERA added skill requirements for independent directors, removed compensation caps, and changed directors' terms from 3 to 4 years. FHFA implemented HERA's governance changes through two final rules—one covering nominations and elections, including skill requirements and terms, and one addressing directors' compensation. Board directors and FHLBank representatives generally view HERA's governance changes as positive, because FHLBank boards now have the ability to nominate qualified candidates who help meet the overall boards' needs.

HERA Made Several Changes to FHLBank Boards

The governance changes HERA made to FHLBank boards changed the way certain directors are selected (see table 2). According to HERA, the majority of each FHLBank's directors must be member directors, who by previously existing statute are nominated and chosen by member

³¹See [GAO-12-18](#). The Federal Reserve System consists of the Board of Governors of the Federal Reserve System—a federal agency—and 12 regional Reserve Banks. Each Federal Reserve Bank is a federally chartered corporation with a board of directors. The membership of each Reserve Bank board includes three directors who represent commercial banks that are members of the Federal Reserve System and six directors who represent the public.

³²The Federal Reserve System implemented this recommendation in December 2011 with a memorandum sent to all Reserve Bank presidents encouraging consideration of potential candidates who hold positions below the senior executive level in their organizations. Additionally, an annual letter to Reserve Bank leadership emphasized the Board's focus on increasing director diversity.

institutions. Independent directors must make up not fewer than two-fifths (40 percent) of each board. Most significantly, HERA required that independent directors be elected rather than appointed by the regulator. From the inception of the FHLBank System in 1932, the Federal Home Loan Bank Act had required the regulator to appoint some directors. Under HERA, independent directors are nominated by FHLBank boards and elected by the FHLBank members at large.³³

Table 2: Selected Governance Changes for Federal Home Loan Bank Boards by Law

	The Federal Home Loan Bank Act (1932)	Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)	Gramm-Leach-Bliley Act (1999)	Housing and Economic Recovery Act of 2008 (HERA)
Composition	9 elected member directors 2 appointed directors	8 elected member directors 6 appointed directors^b	No changes in Gramm-Leach-Bliley	- Majority must be member directors - Two-fifths must be independent directors nominated by FHLBank boards and elected by member institutions
Chair/ Vice Chair	Designated by regulator	No changes in FIRREA	Elected by directors	No changes in HERA
Skill requirements	None specified	Two of the appointed directors must be individuals chosen from organizations with more than a 2-year history representing consumer or community interests on banking services, credit needs, housing, or financial consumer protections.	No changes in Gramm-Leach-Bliley	- Independent directors, who are not public interest directors, must have knowledge of or experience in areas such as financial management, auditing and accounting, risk management, derivatives, project development, or organizational management. - At least two independent directors, known as public interest directors, must have more than 4 years of experience representing consumer or community interests on banking services, credit needs, housing, or financial consumer protections.

³³Any vacancies in directorships are filled by the vote of the FHLBank’s board for the unexpired portion of the term.

	The Federal Home Loan Bank Act (1932)	Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)	Gramm-Leach-Bliley Act (1999)	Housing and Economic Recovery Act of 2008 (HERA)
Term length	3-year terms ^a	No changes in FIRREA	• 3-year terms • Staggered terms, so that roughly 1/3 expire each year	• 4-year terms • Staggered terms, so that roughly 1/4 expire each year
Compensation	Each bank may pay its directors reasonable compensation for the time required of them and for their necessary expenses	No changes in FIRREA	Annual caps • Chair \$25,000 • Vice chair \$20,000 • All other directors \$15,000^c	• Removed caps and allowed FHLBanks to pay directors reasonable compensation • FHFA must reveal directors' compensation in its annual report to Congress

Source: GAO analysis of Housing and Economic Recovery Act of 2008 and other pieces of legislation. | GAO-15-435

Note: This table is not a comprehensive list of all governance changes and instead highlights select governance changes. In particular, there may be additional governance changes between the original act in 1932 and the 1989 act. Additionally, HERA ended the practice of appointed directors and introduced the terms "independent" and "public interest directors," who are a subset of independent directors.

^aAfter the initial board elections for staggered years at the inception of the boards, the 3-year terms will be permanent.

^bFIRREA preserved the 8 elected and 6 appointed director structure. According to FHFA officials, the structure was adopted in 1974.

^cThe amounts are adjusted annually for the Consumer Price Index.

HERA also specified that each independent director (other than public interest directors) have demonstrated knowledge of, or experience in, at least one of the following areas: financial management; auditing and accounting; risk management; derivatives; project development; or organizational management.³⁴ Public interest directors must now have more than 4 years of experience representing consumer or community interests on banking services, credit needs, housing, or financial consumer protections. These requirements significantly expanded the previous requirements, as table 2 shows. HERA also removed compensation caps for board directors and required FHFA to include information on directors' compensation in its annual report to Congress. Finally, HERA expanded the length of directors' terms from 3 to 4 years,

³⁴HERA also authorized the FHFA Director to designate additional skill requirements, and the FHFA has added law as an eligible skill. 12 C.F.R. § 1261.7(e).

but maintained the 3 consecutive full-term limit, so that overall term limits are now 12 years instead of 9 years.³⁵

FHFA Established Two Rules to Implement HERA's Governance Changes

FHFA implemented HERA's governance changes through two final rules—one covering nominations and elections, including skill requirements and terms, and one addressing directors' compensation. According to FHFA officials, these two rules fully implemented HERA's governance changes. In October 2009, FHFA issued the first final rule, which addressed several requirements.³⁶

- **Nominations and elections:** In establishing the rule, FHFA added new provisions to govern the process for nominating individuals for independent directorships and for conducting elections in conjunction with the member director elections. Nominations and elections of member directors remain largely unchanged. According to FHFA officials, as of November 2014, 21 new independent directors have been elected across the FHLBank System under the new nomination and election format.
- **Composition and term length:** The rule established that FHFA would determine the board size for each FHLBank annually and designate at least a majority, but no more than 60 percent, of the directorships as member directors, as required by HERA, and the remainder as independent directors. Each FHLBank board determines how many of the independent directors will be public interest directors—but must ensure that at all times the board has at least two public interest directors. The rule also stated that all of the directors would serve 4-year terms, but FHFA may set a shorter term for some directors so that all directors' terms do not end at the same time.
- **Skill requirements and application forms:** The rule requires that each FHLBank conduct elections for expired independent

³⁵According to FHFA, board directors who were in place when HERA was enacted could potentially serve on a FHLBank board for up to 20 years. For example, incumbent independent directors previously appointed by the former regulator (Federal Housing Finance Board) who remain on an FHLBank board will not "term out" until 2020, or later if the director started an appointed term shortly before HERA was enacted, or was elected to a shortened term for purposes of staggering director's terms.

³⁶Federal Home Loan Bank Boards of Directors: Eligibility and Elections, 74 Fed. Reg. 51452 (Oct. 7, 2009). The rule became effective in November 2009.

directorships, as HERA requires.³⁷ The rule also notes that independent directors must have the qualifications listed in HERA and must complete application forms. Before nominating any individual for an independent directorship, other than a public interest directorship, the board of directors of an FHLBank must decide whether the nominee's knowledge or experience is commensurate with that needed to oversee a financial institution of the FHLBanks's size and complexity. The rule also requires that any independent director nominee who runs unopposed in an election receive at least 20 percent of the votes eligible to be cast.³⁸

- **FHFA's oversight responsibilities:** The rule requires that each FHLBank board submit a list of independent director nominees, along with the completed application forms, to FHFA for review.³⁹ FHFA has some oversight responsibilities pertaining to the eligibility and qualifications of nominees. For example, FHFA officials told us that the agency must review the list of nominees and the application forms before the FHLBanks announce who is running. According to FHFA, the agency reviews the forms to ensure that candidates meet all eligibility and qualification requirements. FHFA told us that the agency performed additional research on the candidates, verified information provided on the forms, ensured that they have not engaged in criminal activity, and checked employment history. According to FHFA officials, the agency conducts additional searches to help verify other roles or positions a candidate lists on an application. FHFA officials said that the candidates proposed by FHLBanks generally met eligibility and qualification requirements. FHFA requests supplemental information when the information on the candidate's qualification is not sufficient. FHFA officials cited only one instance of a candidate who did not meet the requirements and was not nominated, since the HERA rules were implemented.

³⁷An FHLBank board is permitted to fill an unexpired directorship position for the remainder of the term through a board vote to elect a person who fulfills the requirements of the open position, including an independent or public interest director. 12 C.F.R. § 1261.14.

³⁸12 C.F.R. § 1261.7(f)(2)(iii).

³⁹According to FHFA, under the rule, FHFA does not formally approve or reject the FHLBanks' independent director nominees. Instead, the rule provides the agency with the opportunity to provide comments to each FHLBank on its nominees, which the FHLBank's board is required to consider when determining whether to proceed with those nominees or to reopen the nomination.

In April 2010, FHFA issued the second final rule implementing HERA's governance changes related to director compensation and expenses.⁴⁰ The rule removed the previous statutory compensation caps, as mandated in HERA, and allowed each FHLBank to pay its directors "reasonable compensation and expenses," which can be reviewed by the FHFA Director.⁴¹ Additionally, the rule stated that each FHLBank board must annually adopt a written compensation policy. The FHLBanks must submit a copy of the compensation policy to FHFA, along with any other studies or supporting materials used to determine the compensation and expense amounts paid to directors. By statute, FHFA provides information on compensation and expenses in its annual report to Congress.⁴²

HERA's Changes Have Largely Been Viewed as Positive

Our interviews with bank management and staff, board directors, advisory council representatives, and trade associations representing member institutions generally reflected the view that HERA's changes had been positive. The primary reason they cited was that HERA gave FHLBank boards the ability to nominate qualified candidates who would help meet the boards' needs. Representatives from bank management at five of the six FHLBanks we interviewed told us that the election of independent directors gave boards greater control and helped ensure that candidates who possessed specific skills and experience could be nominated. The majority (81 percent) of those board directors who provided comments for our survey also supported the election of independent directors.⁴³ For example, in response to an open-ended question asking about the change, 18 board directors noted that the new nomination and election process allowed boards to select individuals whose skills and experience would augment those of the board as a whole. Additionally, advisory

⁴⁰Federal Home Loan Bank Directors' Eligibility, Elections, Compensation and Expenses, 75 Fed. Reg. 17037 (Apr. 5, 2010). The rule became effective in May 2010.

⁴¹12 C.F.R. § 1261.23.

⁴²For example see FHFA, *Report to Congress 2013*, June 13, 2014, pages 31-33.

⁴³Specifically, 165 out of 178 board directors responded to our question about HERA's requirement that independent board directors be elected rather than appointed. Of the 165 responses we received, we characterized 134 responses as positive or in favor of the change (81 percent) and 31 responses as negative, neutral, mixed impact, or no basis to judge (19 percent). For these responses, some board directors commented that the election process was flawed as well, because it could be difficult for the independent director nominees to obtain the required votes from member institutions.

council representatives from the six FHLBanks we interviewed told us that they now had an increased role in working with the current board directors to help identify and vet candidates who would meet board needs. Representatives from two trade associations we interviewed told us that they supported the change as well, because, for example, member institutions preferred to have a vote and to be able to elect the independent directors.

Representatives from bank management and staff at the six FHLBanks we interviewed were positive about HERA's inclusion of specific skills and experience criteria for independent directors, noting that the criteria provided guidance for the process of identifying and nominating candidates. In addition, the majority of board directors who provided comments on our survey (87 percent) believed HERA's skills and experience requirements for independent directors were appropriate or positive for several reasons. For example, the criteria set minimum skill requirements and helped boards intentionally find individuals with certain skills.⁴⁴ One board director commented that the required skills help the nominating committees to search more broadly for good individuals. Another commented that HERA's skill requirements are broad enough to enable the boards to build varied skill sets to match emerging challenges, for instance, to nominate attorneys who understand SEC regulations—a skill that many member directors may not have.

Representatives from all six FHLBanks we interviewed said that removing compensation caps was a positive change, mainly because the FHLBanks could now make compensation commensurate with the time commitment required of board directors. Before HERA, compensation varied by position on the board (chair, vice chair, all other directors) but was capped across all 12 FHLBanks (see table 3). According to our analysis of FHFA data, the annual compensation for board directors across the 12 FHLBanks has increased significantly since HERA. For example, in 2013 the average chair, vice chair, and director compensation amounts were roughly three times the pre-HERA amounts.

⁴⁴Specifically, 163 out of 178 board directors responded to our question about HERA's skills and experience requirements for independent and public interest directors. Of the 163 responses received, we characterized 141 responses as positive (87 percent) and 22 responses as negative, neutral, mixed impact, or no basis to judge (13 percent). For these responses, some board directors commented that many board directors already possessed skills and experience that mirrored the HERA requirements so they were unsure if the requirements themselves would make much of an impact.

FHLBank representatives noted that compensation was now more competitive with compensation on private sector boards and would help attract and retain qualified individuals. Further, the results of our survey of 2014 board directors showed that 69 percent of respondents believed the skill levels of directors had increased as a result of the removal of compensation caps.

Table 3: Annual Federal Home Loan Bank Board Director Compensation Caps in 1999 and 2008 and Mean Compensation Amounts in 2013

	Pre-Housing and Economic Recovery Act compensation caps		2013 compensation amounts		
	1999 ^a	2008 ^b	Mean ^c	Minimum	Maximum
Chair	\$25,000	\$30,393	\$88,458	\$70,000	\$110,000
Vice chair	\$20,000	\$24,314	\$78,375	\$65,000	\$90,000
Director	\$15,000	\$18,236	\$65,833	\$55,000	\$75,000

Source: GAO analysis of Federal Housing Finance Agency data. | GAO-15-435

^aAccording to the Gramm-Leach-Bliley Act.

^bThe 2008 caps were calculated by adjusting the 1999 caps for inflation. The Gramm-Leach-Bliley Act allowed for an annual adjustment starting on January 1, 2001, based on any increases in the Department of Labor's Consumer Price Index and because of this, the 2008 figures exceed the caps.

^cThe median compensation amounts were slightly lower than the mean values, but because they were less than 10 percent lower, we present the mean values.

Board directors and representatives from bank management at the six FHLBanks we interviewed offered positive comments about increasing the term length from 3 to 4 years because of the steep learning curve involved with understanding FHLBank operations and financing. They said that this learning curve was especially steep during the directors' first 1 or 2 years and that the additional time allowed directors to gain more in-depth knowledge about FHLBank operations. Our board director survey results showed that the majority of board directors who provided comments (87 percent) supported the longer term length.⁴⁵ For example, in response to our request for their thoughts on the change, several board directors noted that because of the level of complexity associated with FHLBanks, longer term lengths helped with continuity of experience on the board. Additionally, as part of their survey responses about thoughts

⁴⁵Specifically, 163 out of 178 board directors provided comments. Of these, we characterized 141 responses as positive (87 percent) and 22 responses as negative, neutral, mixed impact, or no basis to judge (13 percent). For these responses, some board directors noted they did not see a material difference in a 4- versus 3-year term limit.

on the expanded term length, a few directors pointed out that many individuals were familiar with publicly traded companies but that the FHLBanks' cooperative structure was a unique business model. Managers from three of the six FHLBanks we interviewed told us that the increased term length had improved the continuity and stability of its directorships, in particular helping balance turnover when directors must leave because they reached term limits or because of mergers and acquisitions of member institutions.

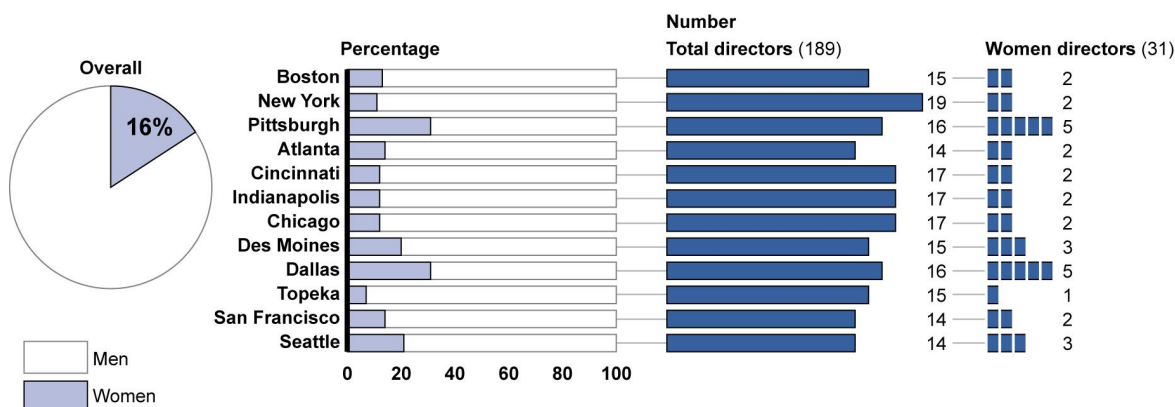
Boards Have Limited Representation of Women and Minorities but Reflect Some Diversity in Skills and Education

In 2014, women represented about 16 percent of board directors and racial or ethnic minorities around 10 percent of board directors, and the majority of FHLBank board directors were non-Hispanic white males. Our survey showed that board directors had a variety of skill sets and education levels. Among member directors (who by statute represent member financial institutions), when compared to the overall representation, member board directors from commercial banks had the most representation, thrifts and credit unions had some representation, and insurance companies and community development financial institutions had the least or no representation on any FHLBank board. According to FHFA officials and representatives from the six FHLBanks we spoke with, several challenges hindered efforts to increase representation of women and racial or ethnic minorities. These challenges included low director turnover, statutory requirements related to board composition, and limited diversity in the financial services sector.

Representation of Women and Racial or Ethnic Minorities on FHLBank Boards Was Limited and Most Were Independent Directors

Women represented roughly 16 percent of all FHLBank board directors in 2014. However, some of the FHLBanks had higher representation of women than others. While each of the 12 FHLBank boards had at least one female board director in 2014, two banks—Dallas and Pittsburgh—had five female board directors each, representing 31 percent of their boards (see fig. 2). One of the 12 FHLBank boards' chair was a woman (Atlanta). Further, our analysis found that the majority of women directors were independent directors, rather than member directors (71 percent).

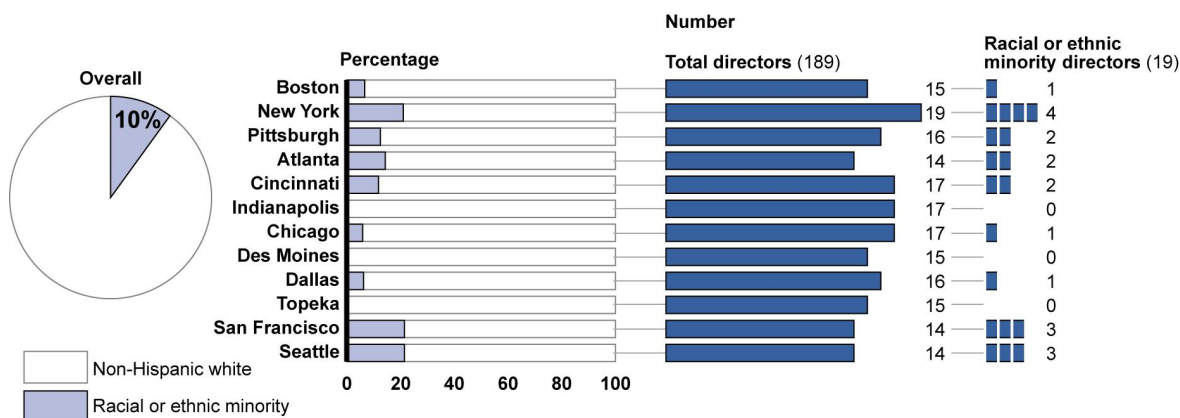
Figure 2: Representation of Women on Federal Home Loan Bank Boards, 2014



Source: GAO analysis of Federal Home Loan Bank data. | GAO-15-435

Additionally, the majority of board directors were white (non-Hispanic), including all board chairs. For example, racial or ethnic minorities represented roughly 10 percent of board directors in 2014. Like the representation of women on boards, the representation of racial or ethnic minorities varied by FHLBank. In 2014, three FHLBank boards had no racial or ethnic minority representation (Des Moines, Indianapolis, and Topeka), and racial or ethnic minorities represented 21 percent of three FHLBank boards—New York (four board directors), San Francisco, and Seattle (three board directors each) (see fig. 3). We found that, as with women directors, the majority of racial or ethnic minorities were independent directors (81 percent).

Figure 3: Racial or Ethnic Minority Representation on Federal Home Loan Bank Boards, 2014



Source: GAO analysis of Federal Home Loan Bank data. | GAO-15-435

We received information on the number of women and racial or ethnic minority board directors over the past 5 years from 11 of the 12 FHLBanks. Based on the information, we found that the representation of women on FHLBank boards over the past 5 years had increased for 8 boards, stayed the same for 1 board, and decreased for the 2 remaining boards. Additionally, the number of ethnic or racial minority board directors increased for 3 boards, stayed the same for 4 boards, and decreased for the remaining 4 boards.⁴⁶

Boards Reflected Some Diversity in Skills and Education

Board directors reported a variety of skills and education levels and, to a lesser extent, had varied industry experience. For example, in our survey of 2014 board directors, both member and independent directors reported having skills in corporate governance and board operations (93 percent), strategic planning (89 percent), organizational management (88 percent), financial management (86 percent), and asset or liability management (80 percent).⁴⁷ Of all the directors who responded to our survey, roughly half

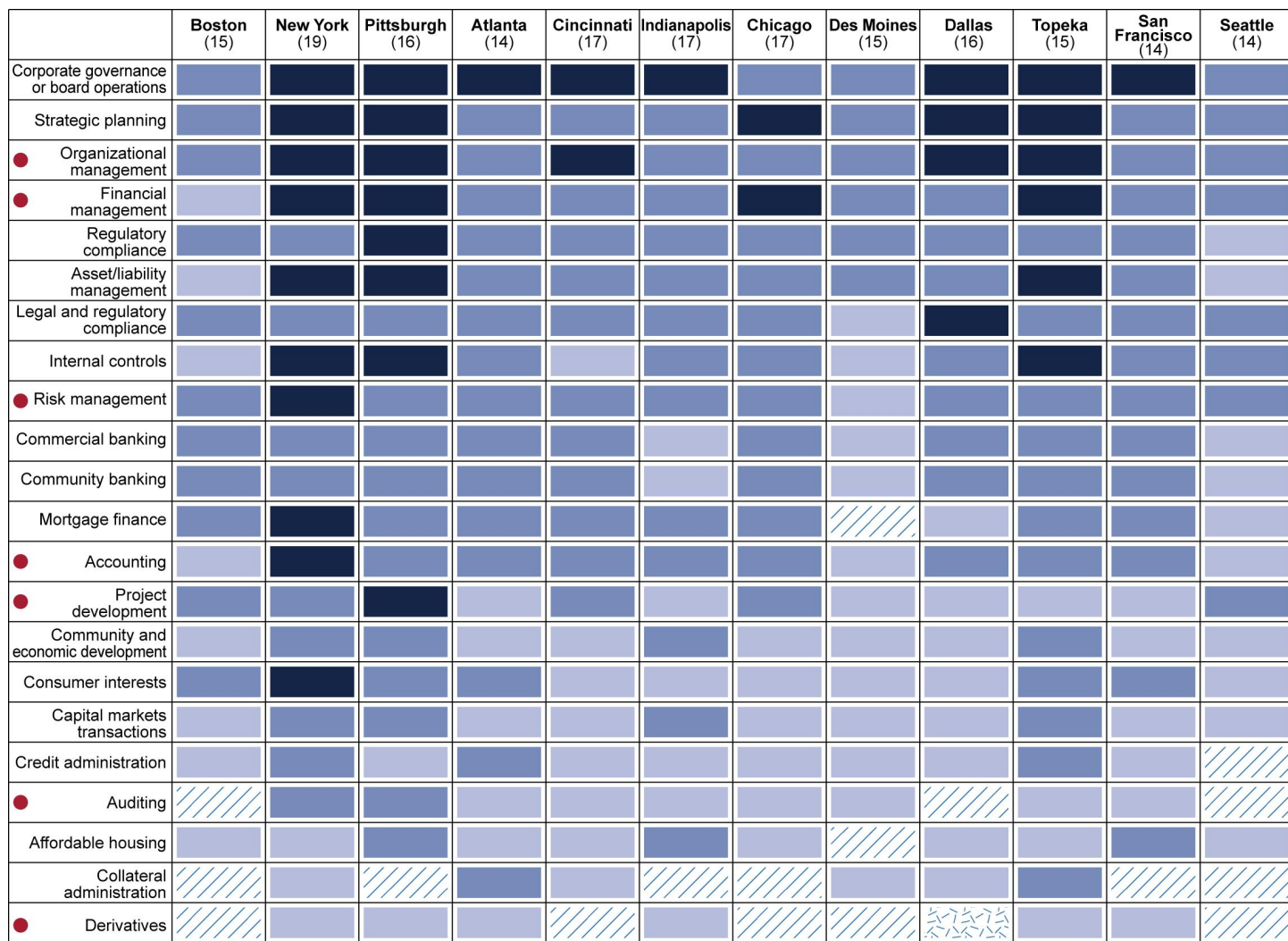
⁴⁶Eleven FHLBanks provided us information on how the number of women and racial or ethnic minority board directors has changed from 2009 through 2014. The FHLBank of Atlanta provided the information for 2010 through 2014. According to most of the FHLBank representatives, the information is mainly based on their observation of their boards and is not routinely collected.

⁴⁷As part of the survey question, board directors were permitted to select multiple areas of expertise.

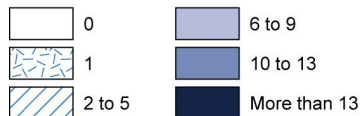
reported having affordable housing expertise (slightly more independent than member directors, 50 and 39 directors, respectively). Additionally, 4 of the 12 board chairs indicated that they had expertise in affordable housing. Member directors reported high skill rates in areas such as accounting (80 percent), commercial and community banking (96 percent), and credit administration (83 percent). HERA did not specify skill requirements for member directors. Independent directors were more likely to report skills such as project development (76 percent), community and economic development (67 percent), and affordable housing (66 percent). As previously discussed, HERA specified that independent directors have certain skills and experience. These independent directors reported having skills and experience in specified areas: financial management (74 percent), auditing (37 percent) and accounting (62 percent), risk management (61 percent), derivatives (37 percent), project development (76 percent), and organizational management (86 percent). According to our survey results, of the HERA skill requirements, independent board directors reported having the most expertise in organizational management and the least expertise in derivatives.⁴⁸ Figure 4 below summarizes board director skills, as self-reported in our survey, for the 12 FHLBank boards.

⁴⁸We found very similar results for member directors—in terms of the HERA-specific skills, member directors reported the most expertise in financial and organizational management, and the least expertise in derivatives.

Figure 4: Board Director Skills by Federal Home Loan Bank, 2014



Number of directors



● Housing and Economic Recovery Act of 2008 requirements for independent directors

Source: GAO analysis of Federal Home Loan Bank survey data. | GAO-15-435

Note: Skills are sorted in descending order based on the total number of directors who responded to the survey question. Board directors were able to self-report multiple skills.

Board directors represented a broad spectrum of education levels. According to our survey of 2014 board directors, most reported their highest degree or level of education as a bachelor's degree (42 percent), followed by a master's degree (33 percent), professional degree or doctorate (19 percent), and associate's degree or high school diploma (5 percent).⁴⁹ Additionally, a third of respondents reported having certifications in addition to traditional degrees. For example, 37 percent of board directors reported having additional certifications that qualified them as certified public accountants, chartered financial analysts, or licensed real estate brokers.

Based on our survey results, there was some variation with respect to board directors' careers. As previously noted, member directors represent and by law must be officers or directors of member institutions. Accordingly, we found that almost all member directors reported working in the banking and finance industry, and that they primarily held executive management positions. Our survey found independent directors reported greater industry sector representation and different types of occupations. For example, roughly a quarter of independent directors reported working in industries other than banking and finance, including industries such as community and economic development, affordable housing, state and local government, and real estate. Similarly, independent directors were more likely than member directors to have worked as consultants, real estate developers, affordable housing specialists, and attorneys. Overall, few board directors reported having worked in the federal government (15 percent) or insurance industry (28 percent).

In 2014, for member directors who represented member financial institutions, we found that commercial banks had the most representation, thrifts and credit unions some representation, and insurance companies and community development financial institutions the least or no

⁴⁹Of the directors who responded to our survey, one director did not respond to our question about highest degree or education level.

representation (see table 4).⁵⁰ For example, we found that 76 percent of member directors were from commercial banks, while the overall percentage of commercial bank membership was 66 percent. Credit unions had some representation on FHLBank boards (5 percent) compared with their general membership base (17 percent).

Table 4: Overall Federal Home Loan Bank Membership and Member Director Representation, by Institution Type, 2014

	Federal Home Loan Bank membership	Federal Home Loan Bank member directors ^a
Commercial banks	66%	76%
Credit unions	17	5
Thrifts	12	17
Insurance companies	4	0
Community development financial institutions	Less than 1	0
Total	100%	98%

Source: GAO analysis of 2014 Federal Home Loan Bank membership data and survey responses of 2014 board directors. | GAO-15-435

^aColumn does not equal 100 percent because not all board directors responded to our survey question about the type of institution they represented.

FHLBank Boards Face Some Challenges In Their Efforts to Increase Diversity

According to FHFA officials and the FHLBanks, the boards face some challenges that may limit their ability to increase diversity, including low director turnover, certain statutory requirements, and lack of diversity in the financial services sector. For example, only a few directorships are open for election each year because director turnover is limited. FHFA determines the size of each FHLBank’s board (in consultation with the bank), and FHFA officials told us that they had been seeking to limit the number of directors on each board to prevent the boards from becoming too large. Consequently, board size has decreased for some FHLBanks,

⁵⁰This analysis compares the number of member institutions in each category (commercial banks, credit unions, thrifts, insurance companies, and community development financial institutions) to the number of board member directors representing those same categories of financial institutions. It does not take the size of financial institutions into account. The analysis and representation may differ after taking into account financial institutions’ size. Generally speaking, larger financial institutions hold more capital stock than smaller financial institutions, and therefore have more voting shares. Because voting shares are based on each member’s capital stock holdings, the size of financial institutions may impact board director representation in the various categories.

resulting in fewer open seats for new independent directors who may bring diverse perspectives. Further, HERA mandates that directors serve 4-year terms. By statute, directors continued after HERA to be permitted to serve up to three consecutive terms, which after the HERA extension, resulted in total term lengths of 12 years for some directors. Given the 12-year term lengths, opportunities for new directors to join the boards are limited. Additionally, because directors can serve three consecutive full terms, many boards nominate incumbent independent directors for reelection, and these nominees may run unopposed. FHFA officials cited these challenges and acknowledged that the low turnover and term lengths, in particular, meant that increasing diversity would take time.

Other statutory requirements may also hinder efforts to change the composition of FHLBank boards. As previously discussed, HERA defines the composition of the board. At least a majority of the board must be member directors, with not fewer than two-fifths independent directors (40 percent). While the FHLBank boards nominate independent directors, member directors are nominated by the member institutions within the FHLBank district, limiting the boards' role in selecting these directors.⁵¹ FHFA told us that the agency was aware of the potential difficulty of identifying diverse candidates for member directors and noted that increased board diversity would likely come from independent directors. Further, geographic requirements also affect the selection of board directors. For example, statute requires at least one member director per state.⁵² Additionally, statute requires that member directors be officers or directors of a member institution located in the district in which the FHLBank is located and that independent directors be residents of the district.⁵³

Additionally, boards must balance efforts to increase racial or ethnic and gender diversity with other qualities, such as HERA skill requirements, SEC expertise, and other needs of the boards. For example, board directors from the Atlanta and Des Moines FHLBank boards stated that their boards had been seeking individuals with risk management expertise in an effort to satisfy HERA requirements. Further, FHLBank management and SEC officials noted the importance of finding

⁵¹12 C.F.R § 1261.7(b)-(c).

⁵²12 U.S.C. §1427(c).

⁵³12 U.S.C. §1427(a)(4)(A)-(B).

candidates with SEC expertise, because the FHLBanks are SEC registrants. SEC officials explained that the process of registering with SEC caused the FHLBanks to improve their accounting and organizational systems and added that board directors assumed personal liability risk for the FHLBanks. In terms of other board needs, three board directors from the Pittsburgh FHLBank board told us that their board was specifically looking for candidates with insurance expertise. This need to balance traditional gender and racial or ethnic diversity with required skills and other board needs has limited efforts to increase women and minority representation on boards. FHFA officials noted the overall lack of diversity in the financial services sector, including at FHLBank member institutions, as increasing the challenges facing efforts to improve board diversity. The representation of women and racial or ethnic minorities on financial services companies' boards was limited as well. For example, according to The Conference Board's 2013 survey of financial services companies' boards, roughly 14 percent of board directors were women and fewer than 10 percent were racial or ethnic minorities.⁵⁴ We have previously reported that the main challenge to improving diversity was identifying candidates, noting that minorities and women are often underrepresented in both internal and external candidate pools for financial services management positions.⁵⁵

FHLBanks and FHFA Have Taken Some Steps to Increase Board Diversity

In response to the board governance changes under HERA, FHLBanks have established processes to identify and nominate independent directors. We found that these processes generally followed several commonly cited practices for improving board diversity, such as making diversity a priority and disclosing diversity practices. For example, our review of FHLBank bylaws and related written policies and procedures found that 9 of the 12 FHLBanks noted the importance of emphasizing diversity in the process of nominating and electing board directors. Additionally, FHFA has taken some steps to demonstrate the importance of diversity on FHLBank boards. In the preamble to its 2009 rule, FHFA urged FHLBanks to consider the importance of board diversity when identifying and nominating candidates. Further, in May 2015, FHFA issued a rule that allows for the collection and reporting of FHLBank board diversity information to the FHFA. FHFA plans to evaluate this

⁵⁴The Conference Board included data for 359 corporations issuing equity securities registered with SEC. Of these corporations, 76 were financial services companies.

⁵⁵See [GAO-13-238](#).

information, as well as the boards' outreach activities for identifying diverse candidates.

FHLBanks Have Used Some Commonly Cited Practices for Improving Board Diversity

Since HERA's enactment, FHLBanks and their boards have developed and refined new processes to help them identify and nominate independent directors and respond to new requirements for their board directors. As previously discussed, in October 2009 FHFA issued a rule implementing several of HERA's governance changes, including eligibility requirements for independent directors and election processes.⁵⁶ In the preamble of the rule, FHFA encouraged FHLBanks to consider the diversity of their board membership but did not mandate them to do so.

Our review of the FHFA rule, the board minutes of all 12 FHLBanks, and selected interviews with FHLBank management and board directors found that currently FHLBanks and their boards generally follow similar processes for identifying new board directors. The steps the FHLBanks take are

- assessing the boards' needs as well as the makeup of the current board membership;
- identifying any skill or experience gaps among the current directors;
- discussing the number of seats that will be on the board (determined by FHFA) and determining how many board seats will be open to new candidates during the election cycle;⁵⁷
- discussing upcoming elections and potential nominees for independent directorships with their advisory councils and seeking advisory councils' help with candidate outreach;

⁵⁶Federal Home Loan Bank Boards of Directors: Eligibility and Elections, 74 Fed. Reg. 51452 (Oct. 7, 2009). The rule became effective in November 2009.

⁵⁷FHFA officials discuss overall board size with some of the FHLBanks prior to the election cycle but under the regulation the FHFA director retains the authority to determine the size of the board of each FHLBank and the number of member directors. See 12 C.F.R. § 1261.3(a). FHFA must notify the FHLBanks by June 1 of the election year of the number of seats and the number of member directorships designated as representing the members in each voting state in the FHLBank district. See 12 C.F.R. §1261.4(d).

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- opening the election cycle with a call for nominees for member directors and applications for independent directors;
 - interviewing candidates for independent directorships and discussing their attributes to determine which candidate(s) to select for the ballot;⁵⁸
 - verifying the eligibility of candidates for independent directorships and submitting candidates' materials to FHFA for review;⁵⁹
 - providing a ballot to each member institution listing the candidates who will run in the upcoming election cycle; and
 - declaring the results of the election to members, nominees, and FHFA.

During the nomination and election process for independent directors, as well as to some extent when boards request nominees for member directors, the FHLBanks take steps that correspond to commonly cited practices to increase diversity on boards, particularly the representation of women and minority directors.⁶⁰ As we have noted, our prior work has identified practices organizations should consider in developing and implementing diversity management programs in the overall workforce, in the financial services sector, and at federal financial regulators.⁶¹ We selected practices from our prior work and from those cited by representatives of corporate governance organizations and academic researchers that we determined were most applicable to FHLBank

⁵⁸In some cases, the independent director candidate interview and vetting process occurs first through a separate nominating, governance, or executive board subcommittee.

⁵⁹FHFA reviews the independent director candidates' application forms and can provide comments to the FHLBanks. The board must consider FHFA's comments to determine whether to proceed with those nominees or re-open the application and nomination process. See 12 C.F.R. §1261.7(f).

⁶⁰As discussed earlier, FHLBank board members are limited in their ability to solicit nominees for member directors.

⁶¹For example, see [GAO-05-90](#). In this report we identified nine leading practices that experts and literature agreed should be considered when an organization is developing and implementing diversity management. We reviewed these practices in a subsequent review of diversity management in the financial sector and financial regulatory agencies in [GAO-13-238](#).

boards.⁶² As described later, these practices include making diversity a priority, conducting a skills and needs assessment, targeting diverse candidates, seeking new ways to find candidates, and disclosing diversity practices. Our review of all 12 FHLBanks' bylaws, policies and procedures, SEC filings, board meeting minutes, and interviews with FHLBank representatives at 6 FHLBanks showed that boards consider diversity in a variety of ways that correspond to these practices. We did not assess whether these practices had an effect on the diversity and composition of the FHLBank boards.⁶³

Making diversity a priority: Many of the FHLBank boards had taken actions that demonstrated a commitment to diversity. Our review of FHLBank bylaws, policies and written procedures, and written responses found that 9 of the 12 FHLBanks noted the importance of emphasizing diversity in the process of nominating and electing board directors. For example, the FHLBank of Boston's bylaws state that when making nominations, the board may consider factors including any experience on the board, qualifications, skills, and experience that could strengthen the board, and diversity. The FHLBank of Dallas reported that the board considers diversity important to a well-rounded board of directors able to meet its fiduciary responsibilities to the bank's members and staff. Demonstrating a commitment to diversity—such as discussing diversity in leadership policy statements or newsletters, or including diversity as part of the strategic plan—has been cited by GAO and others as a first step towards addressing diversity in an organization.⁶⁴

Conducting a skills and needs assessment: FHLBanks regularly assessed the skills, expertise, and experience of current board directors—allowing them to evaluate the board and identify additional skills and experience that would help improve the board's effectiveness and address current challenges. Our review found all 12 FHLBank boards

⁶²FHLBanks are private, member-owned cooperatives. The board election processes are different from those of public corporations with shareholders. We have ongoing work examining strategies to increase the representation of women on boards of U.S. publicly traded corporations.

⁶³We found that the FHLBanks have implemented these practices over different periods of time, including after 2014 director elections.

⁶⁴See The Conference Board, *Women on Boards: Review and Outlook No. DN-V4N9* (May 2012) and Catalyst, *2013 Women in the Boardroom: The New Normal, Solutions from the Boardroom for the Boardroom* (June 2014).

used a skills matrix either annually or on an as-needed basis—for example, to help identify the types of independent candidates to consider. Additionally, several board directors noted that their board’s use of a skill matrix or needs assessment helped in identifying desired skills and experiences for potential nominees, including those required for independent directors under HERA, and additional experiences such as in the insurance or information technology industries. Board directors from the FHLBanks of Atlanta and Pittsburgh told us they included diversity as part of their matrix (in addition to skills). Several corporate governance and diversity organizations have cited a skills matrix as a tool that boards can use to facilitate assessments of board needs in terms of skills and diversity.

Targeting diverse candidates: In our review of FHLBank board minutes and interviews with board directors, we found that some FHLBank boards explicitly discussed targeted efforts to add women or minority candidates to their boards. For example, the chair of the board of the FHLBank of Des Moines discussed finding a Native American director candidate because the FHLBank district had a significant Native American population.⁶⁵ In our review of FHLBank board meeting minutes, we found that several boards had discussed the need to consider women and minority representation in the nomination process and had referenced presentations by FHFA OMWI staff or FHFA’s rule as it was proposed in June 2014 as among their reasons for doing so. Representatives from corporate governance organizations and academic researchers cited the practice of setting broad targets or goals for increasing the number of women and minority directors on boards as one way boards could increase diversity and ensure that they were taking steps to consider a diverse array of candidates.

Seeking new ways to find candidates: The FHLBanks have taken several steps to diversify their applicant pools for directors. Nine of the 12 FHLBanks post information about their board director nomination and election processes on their websites. The FHLBank of Boston specifically encourages women and minority candidates to apply. Additionally, 7 FHLBanks reported that they sometimes consulted with outside groups to help solicit nominees, including organizations representing affordable

⁶⁵This candidate was identified for the 2015 election cycle and is therefore not reflected in our survey data of 2014 board directors.

housing, economic development, and consumer or community interests. The FHLBank of Topeka reported using a search firm, and the FHLBank of Seattle reported using director databases to identify independent director candidates for nomination. The FHLBank of Pittsburgh conducted outreach with organizations such as Executive Women International and Hispanic and African American Chambers of Commerce to seek out diverse applicants. Further, directors from the FHLBank boards of Dallas and Seattle reported using social media platforms to help attract candidates. For example, representatives from one FHLBank told us that LinkedIn had been useful in recruiting employees for the FHLBank and that they had decided to use it to identify potential independent director nominees.

We found that all 12 FHLBank boards had separate governance committees and that 11 of the charters for these committees had responsibility for overseeing director nominations and elections. Also, as noted earlier, the FHLBanks consult with their advisory councils about potential nominees for independent directors. Board directors from 4 of the 6 FHLBanks we met with told us that advisory council members themselves had been nominated and subsequently elected to their boards. Board directors from three FHLBanks we interviewed told us that their advisory councils also provided them with information about potential candidates. For example, staff from the FHLBank of Atlanta told us that their board relied heavily on the advisory council to identify qualified, diverse candidates for independent director positions. These activities are in line with practices cited by representatives from corporate governance organizations and academic researchers, which reported that increasing board diversity could require current directors to reach out beyond the typical pool of applicants or their own personal networks to find qualified women and minority candidates.⁶⁶ They cited several steps boards could take to find these candidates, such as partnering with outside organizations, using search firms to identify a broader pool of candidates,

⁶⁶See Szymon Kaczmarek; Satomi Kimino, and Annie Pye. "Antecedents of Board Composition: The Role of Nomination Committee." *Corporate Governance: An International Review* 20.5 (September 2012): 474-489; Deborah L. Rhode and Amanda K. Packel, "Diversity on Corporate Boards: How Much Difference Does Difference Make?" *Delaware Journal of Corporate Law*, vol. 39, no. 2 (2014); and National Association of Corporate Directors, *Report of the NACD Blue Ribbon Commission - The Diverse Board: Moving From Interest to Action* (October 2012).

and creating nominating committees to focus on the selection of candidates.⁶⁷

Disclosing diversity practices: Some FHLBanks disclose the board's diversity policies and the way they consider diversity in nominating and selecting directors. We found that the boards of three FHLBanks (Atlanta, New York, and Seattle) had adopted public statements on board diversity and inclusion that they published on their websites. The statements noted that the FHLBanks encouraged the consideration of diversity (including gender, minority status, and disability classifications) in soliciting and nominating director candidates. In its 2014 public election announcement, the FHLBank of San Francisco's board stated it would consider, among other things, the overall composition of the board, the diverse communities of the FHLBank's district, and other factors it believes would contribute to a diverse, balanced, and effective board. In addition, 3 of the 12 FHLBanks stated in their annual SEC 10-K filings that their boards considered diversity in nominating independent directors.⁶⁸ One of these FHLBanks, the FHLBank of Pittsburgh, noted that board directors should also consider diversity when nominating candidates for member director positions. These factors could be seen as additional attributes that enhanced traditional qualifications for board directors, according to the financial statements. Some representatives from corporate governance organizations and academic researchers have said that the disclosure of companies' diversity policies and the way they consider diversity in nominating and selecting directors could increase the representation of women and minorities on boards, particularly if they were required to do so by a regulator or an exchange.

⁶⁷SEC rules require that publicly traded companies disclose whether they have a nominating committee or, if they do not, to explain why. 17 C.F.R. § 229.407(b)(3), (c). The rules also require that companies provide an explanation in their proxy statements for their annual meeting of their process for identifying and evaluating nominees. 17 C.F.R. § 229.407(c).

⁶⁸In 2009, SEC issued a rule requiring public companies to disclose whether, and if so how, they consider diversity when nominating candidates for director. Proxy Disclosure Enhancements, 74 Fed. Reg. 68334 (Dec. 23, 2009); 17 C.F.R. § 229.407(c)(2)(vi). However, FHLBanks are not subject to this rule because they are exempt from the requirements to file proxy statements. 12 U.S.C § 1426a. SEC did not define diversity in this rule and, in adopting this rule, clarified that companies should be allowed to define the term in ways that they consider appropriate.

FHFA Has Also Taken Steps to Emphasize the Importance of Diversity and Plans to Begin Collecting Data about Board Diversity

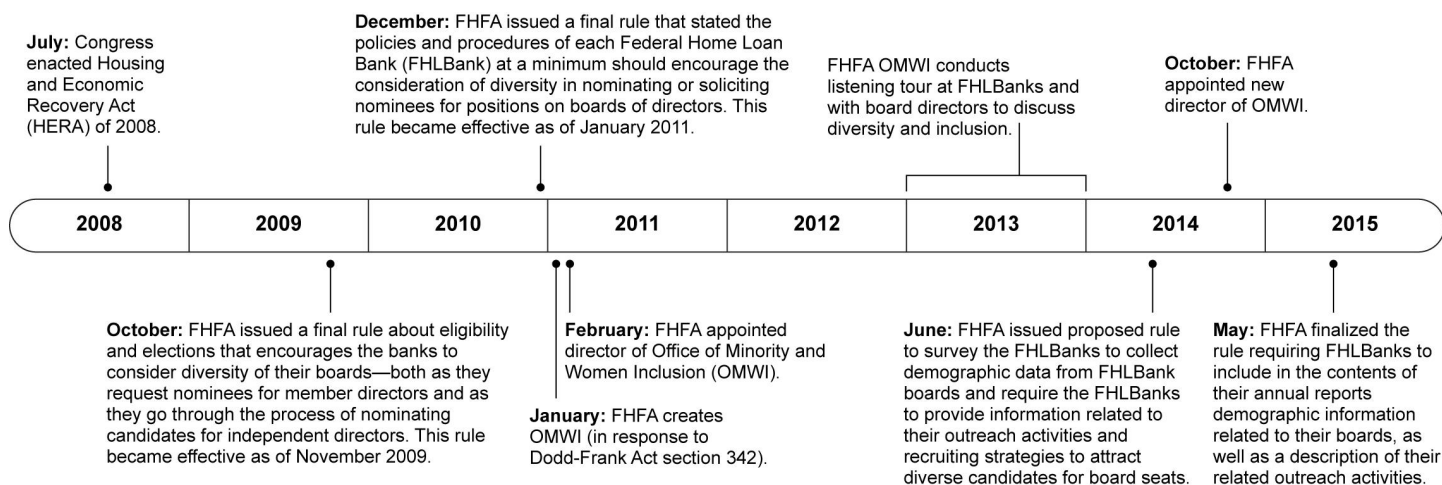
FHFA has taken some steps to demonstrate the importance of diversity on FHLBank boards. In rules issued in 2009 and 2010, FHFA urged FHLBanks to consider the importance of board diversity. In the 2009 rule, FHFA encouraged the boards to consider the diversity of their boards both when requesting nominees for member directors and nominating candidates as independent directors.⁶⁹ In the 2010 rule, FHFA stated that FHLBanks' policies and procedures should encourage the consideration of diversity.⁷⁰ FHFA created an OMWI in January 2011 to promote diversity and the inclusion of women and minorities in all FHLBank activities, including the promotion of diversity on FHLBank boards.⁷¹ OMWI staff conducted a listening tour in 2013 that included visits to each of the 12 FHLBanks to discuss the OMWI's role and learn more about FHLBanks' diversity practices. OMWI staff also asked for suggestions on how to evaluate diversity metrics. Figure 5 outlines the timeline of events from the enactment of HERA through the creation of OMWI and subsequent activities related to FHLBank board diversity.

⁶⁹Federal Home Loan Bank Boards of Directors: Eligibility and Elections, 74 Fed. Reg. 51452 (Oct. 7, 2009). The rule became effective in November 2009.

⁷⁰Minority and Women Inclusion, 75 Fed. Reg. 81395 (Dec. 28, 2010). The rule became effective in January 2011.

⁷¹As previously discussed, FHFA created its OMWI based on requirements in the Dodd-Frank Act.

Figure 5: Timeline of Events Related to Diversity on Federal Home Loan Bank Boards



Source: GAO summary of Federal Housing Finance Agency (FHFA) information. | GAO-15-435

In June 2014, FHFA proposed a rule that would require FHLBanks to report the demographic profiles of board directors and a description of their related diversity outreach activities.⁷² FHFA finalized the rule in May 2015.⁷³ The rule requires FHLBanks to report to FHFA their board directors' voluntarily self-reported demographic information, something FHLBank management and employees are already required to do.⁷⁴ The purpose of the proposal was to allow FHFA and the FHLBanks to obtain access to data about board diversity, particularly numbers of women and minority directors, in order to better assess current levels of diversity and the impact of their outreach efforts (including those practices discussed earlier). The final rule states that current FHFA regulations require FHLBanks to implement policies that encourage the consideration of diversity in the nomination or selection of nominees for board directors. The rule states the FHLBanks are required to report on board diversity

⁷²Minority and Women Inclusion Amendments, 79 Fed. Reg. 35960 (June 25, 2014).

⁷³ Minority and Women Inclusion Amendments, 80 Fed. Reg. 25209 (May 4, 2015). The rule becomes effective on July 6, 2015.

⁷⁴These classifications come from the Equal Employment Opportunity Commission's Employer Information Report, a standardized form the FHLBanks already use. The race/ethnicity categories include White, Black, Hispanic, Asian, and American Indian.

data and outreach efforts in their annual reports to OMWI, beginning September 30, 2015.⁷⁵ FHFA officials also told us that although FHLBanks could interpret diversity broadly and might seek other types of diversity on their boards, the OMWI focuses on the representation of women and minorities, and OMWI expected FHLBanks to have diversity outreach programs that targeted these two groups. Our prior work and that of a global research institute have cited the practice of collecting diversity data as a way to better measure and assess the effectiveness of diversity programs on increasing diversity.⁷⁶ For example, our 2011 report on governance practices at the Federal Reserve Banks found that each bank submitted demographic information that directors provided voluntarily.⁷⁷ Moreover in our April 2013 report on OMWIs, we found that not all OMWIs were reporting on the outcomes of their diversity practices. As a result, we recommended that the federal financial regulators collect data and report on measurement outcomes as part of their reports to Congress in order to enhance their own diversity initiatives.⁷⁸ The agencies and Federal Reserve Banks generally agreed with our recommendations and as of April 2015 the recommendations remained open.

In commenting on the June 2014 proposed rule, which was finalized in May 2015, the majority of FHLBanks and a housing advocacy organization expressed their support.⁷⁹ Several of the board directors we interviewed mentioned the need for more data on diversity to draw attention to the issue and to serve as a catalyst for change. In a comment letter to FHFA about the June 2014 proposed rule, a housing advocacy group noted the need for greater diversity in the FHLBank System to

⁷⁵Minority and Women Inclusion Amendments, 80 Fed. Reg. 25209 (May 4, 2015). Codified as 12 C.F.R. § 1207.22 and 1207.23(b)(9)(i)-(ii).

⁷⁶See Credit Suisse Research Institute, *Gender Diversity and Corporate Performance* (Zurich, Switzerland: August 2012).

⁷⁷See [GAO-12-18](#). The board uses the information to create a database to better track the gender, race/ethnicity, and industry background of the directors over time.

⁷⁸See [GAO-13-238](#).

⁷⁹Letter from FHLBanks of Atlanta, Boston, Chicago, Cincinnati, Des Moines, New York, Pittsburgh, Seattle, Topeka and the FHLBanks' Office of Finance to FHFA regarding Notice of Proposed Rulemaking Regarding Minority and Women Inclusion Amendments RIN: 2590-AA67, August 25, 2014.

continue to ensure greater access to affordable housing for all sectors of society.⁸⁰

Under its new director, FHFA's OMWI reported starting several new initiatives related to board diversity. OMWI officials are working with FHFA policy and supervision staff to develop new supervisory guidance for reviewing diversity efforts. They plan to analyze diversity data collected under the May 2015 rule to assess trends and outreach efforts. They also noted several upcoming collaborations among the FHLBanks to promote diversity throughout the FHLBank System, including on boards of directors. For example, during an upcoming summit of human resources directors, OMWI staff are scheduled to present training on how FHLBanks can improve diversity in the workforce and implement diversity requirements.

Community Lending Support Varies across the FHLBanks and Is Affected by Several Factors

The full extent of community lending supported by FHLBanks is unknown because data are not available on member institutions' use of advances. However, the FHLBanks support community lending through two types of programs: those designed by the FHBanks targeted to the needs of individual districts (unique programs) and system-wide programs that are authorized by statute and generally available in every district. Based on our analysis, the level of activity under these programs varies across the FHLBanks. Our survey results and interviews with FHLBank board directors indicated that directors were responsible for overseeing community lending and that those who served on their bank's affordable housing or community development committees had the most oversight responsibilities. Board directors responding to our survey and FHLBank representatives noted that several factors affected FHLBanks' ability to increase members' community lending.

⁸⁰Letter from The Greenlining Institute to FHFA regarding the Proposed Minority and Women Inclusion Amendments RIN: 2590-AA67, August 25, 2014.

The Full Extent of Community Lending Is Unknown, but Available Information Shows Variation across FHLBanks

Community lending is a key component of the FHLBank System's mission. However, it is difficult to know the full extent of FHLBanks' support for community lending because data on how member institutions use regular advances are not available.⁸¹ Specifically, the FHLBanks annually report their total advances to member institutions. These advances may be used for a variety of purposes, including housing finance and community lending, and member institutions do not have to specify how they use them. Advances can be structured in any number of ways, allowing each FHLBank member institution to find a funding strategy that is tailored to their specific needs.⁸² While the FHLBanks report advances for community lending through the CIP and CICA program, ultimately other advances may support community lending. For example, FHLBanks may offer advances that have various terms and rates to meet community needs such as long-term financing for small businesses or agricultural development.⁸³ Additionally, the FHLBanks offer letters of credit to facilitate member institutions' transactions with third parties but report only the balances of those letters of credit to FHFA. Letters of credit can impact community lending—for example, by helping developers obtain funding for economic development.

Our review of FHLBank reports and statements from FHLBank representatives showed that 6 of the 12 FHLBanks offered unique community lending programs with different funding types in addition to the system-wide programs. These unique programs include Chicago's Community First Fund®, Cincinnati's Zero Interest Fund, Dallas's Partnership Grant Program, Pittsburgh's Banking on Business and Blueprint Communities®, San Francisco's Access to Housing and Economic Assistance for Development, and Topeka's Joint Opportunities for Building Success (see table 5).

⁸¹FHFA defines community lending to include financing for economic development projects for targeted beneficiaries. As defined by FHFA, economic development projects include (1) commercial, industrial, manufacturing, social service, and public facility projects and activities; and (2) public or private infrastructure projects.

⁸²Advances are the largest category of assets of the FHLBanks on a combined basis, representing about 62 percent of all assets as of September 30, 2014.

⁸³For CIP, advances must benefit either low- or moderate-income households or economic development projects located in low- or moderate-income neighborhoods. For CICA, advances or grants must benefit targeted income levels. From 1990 to 2013, the FHLBanks funded \$7 billion in CIP community lending advances and \$17 billion in CICA community lending advances.

Table 5: Unique Community Lending Programs at Federal Home Loan Banks, as of 2014

Federal Home Loan Bank	Program	Purpose	Recipients and uses	Funding type
Chicago	Community First Fund®	Community First Fund provides access to capital that supports meeting economic development and affordable housing needs in the Federal Home Loan Bank's (FHLBank) communities.	Provides community development organizations with lower-interest-rate, longer-term financing that focuses on expanding their capacity for affordable housing and economic development lending in the communities they serve.	Loan fund
Cincinnati	Zero Interest Fund	Zero Interest Fund supports the affordable housing and economic development activity of FHLBank member institutions by providing resources for residential, commercial, and industrial real estate-related projects.	Funds are available through member institutions. Eligible uses include project costs such as land acquisition, appraisals, architectural drawings, consulting fees, licensing and permit fees, market studies, infrastructure, or other real estate-related expenditures.	Loan fund
Dallas	Partnership Grant Program	Provides funding for the operational needs of community-based organizations—nonprofits involved in affordable housing, stimulating small business development, or providing small business technical assistance within the district.	The program is offered through eligible FHLBank member institutions to eligible community-based organizations. Funds can be used for organizational capacity building, assistance in applying for grants or other funding sources, research and studies, and contractual services.	Grant funding
Pittsburgh	Banking on Business	Banking On Business funding helps eligible small businesses with start-up and expansion.	The program is offered through FHLBank member institutions to finance the start-up or expansion of a small business, land acquisition and construction, expansion of a facility, purchase of machinery and equipment, leasehold improvements, permanent working capital, and closing costs.	Loan fund
	Blueprint Communities®	Blueprint Communities helps member institutions team with local leaders to revitalize older communities and neighborhoods.	Blueprint teams, consisting of a diverse mix of local leaders, receive leadership training and then use their skills to create and implement revitalization plans for their communities.	Not applicable
San Francisco	Access to Housing and Economic Assistance for Development	Access to Housing and Economic Assistance for Development grants support targeted economic development projects and non-Affordable Housing Program initiatives that create or preserve jobs, deliver social services, or provide training and educational programs.	FHLBank members working with community groups may submit applications for Access to Housing and Economic Assistance for Development grants to finance a variety of start-up costs, such as research, studies, and project plans; consulting or other professional services; or organizational and capacity-building activities.	Grant funding

Federal Home Loan Bank	Program	Purpose	Recipients and uses	Funding type
Topeka	Joint Opportunities for Building Success	Joint Opportunities for Building Success is designed to promote economic development initiatives that assist FHLBank members in promoting employment growth in their communities.	Available to FHLBank member institutions for the purposes of reducing interest costs on small business loans, funding a micro-loan pool, collaborating with community development financial institution programs, and facilitating entrepreneurship training.	Grant funding

Source: GAO analysis of Federal Home Loan Bank documents. | GAO-15-435

These unique programs often complement the FHLBank’s system-wide programs. In 2015, \$2 million to \$4 million dollars in funding was made available for two of the three loan funds and the third loan fund was in the amount of \$50 million. In addition, all three grant programs were approved for up to under \$1 million dollars. Most of these unique programs were implemented before HERA.⁸⁴

Representatives of four of the six FHLBanks we spoke with (Chicago, Dallas, Pittsburgh, and San Francisco) said that conducting a needs assessment had been helpful in the planning, development, and execution of unique community lending programs. Specifically, some of these FHLBanks hired third parties to conduct a housing needs assessment or surveyed their members and used the findings to help board directors and advisory councils better understand the regional characteristics and needs of the states within their district.

FHLBank representatives we spoke to from Chicago, Dallas, and Pittsburgh said that there had been an increased focus on community lending in recent years. According to these FHLBank representatives, this shift occurred as a result of aligning the activity of the advisory council with the strategic goals of the FHLBank, encouraging directors to attend advisory council meetings, and strengthening the FHLBank’s community investment staff. For example, the FHLBank of Chicago expanded its

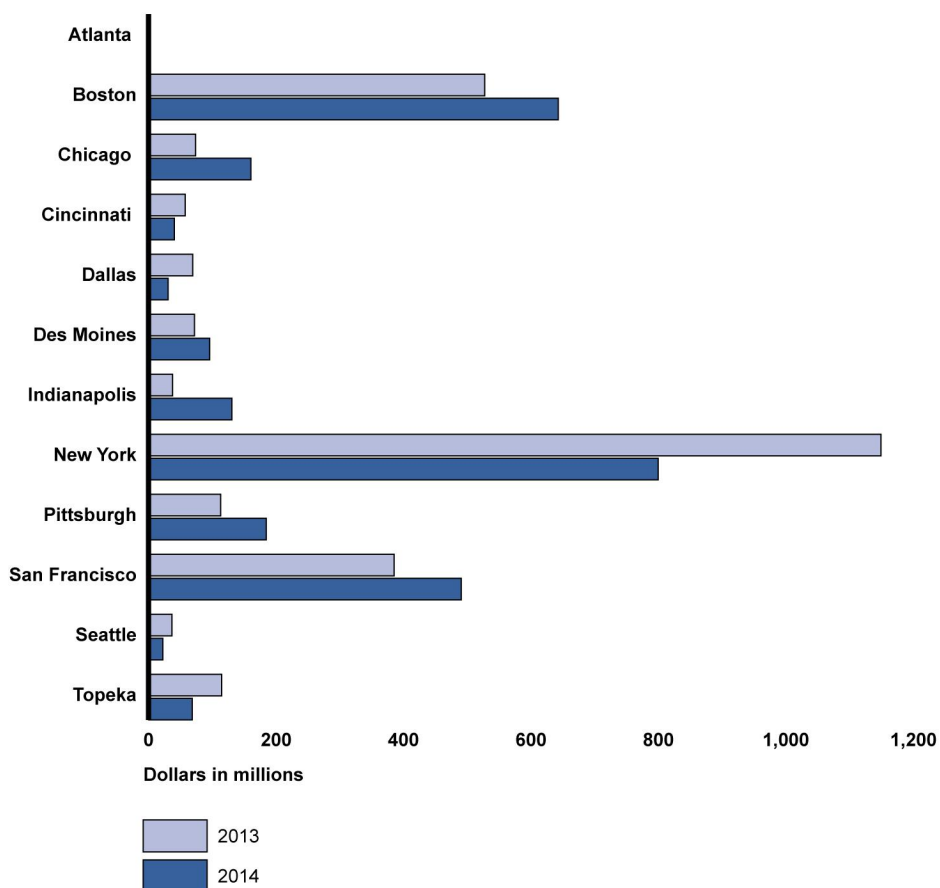
⁸⁴In 2011, the FHLBank of Chicago created the Community First Fund, a \$50 million revolving fund for affordable housing and economic development. The FHLBank of Chicago developed this program to resolve a dispute over an interpretation of regulatory guidance pertaining to investments made in 2010. A portion of the income earned from these investments was used to fund the program.

community investment team to better engage with and support the FHLBank's members and their communities.

Use of system-wide programs varied, with some FHLBank member institutions using the community lending advances under the voluntary CICA program more than others. Total CICA advances across the FHLBanks increased less than 2 percent between 2013 and 2014 but two FHLBanks more than doubled their community lending under these programs.⁸⁵ Specifically, the FHLBank of Indianapolis increased its lending to member institutions by 71 percent, and the FHLBank of Chicago increased lending to member institutions by 54 percent (see fig. 6).

⁸⁵FHLBank member institutions used the economic development advances under CICA at 11 of the 12 FHLBanks in both 2013 and 2014. Member institutions of the FHLBank of Atlanta did not use advances under the program in 2013 or 2014.

Figure 6: Federal Home Loan Bank Community Investment Cash Advances, 2013 through 2014



Source: GAO analysis of Federal Housing Finance Agency data. | GAO-15-435

Another system-wide program the FHLBanks use to support community lending is CIP. Under CIP, the FHLBanks provide advances to member institutions for housing projects, economic development projects, or both. Membership use under CIP varies. For example, in 2014 four FHLBanks funded member institutions for both housing projects and economic development projects (Boston, Chicago, Cincinnati, and Topeka). The remaining eight FHLBanks provided member institutions with CIP advances for housing projects only. In 2014, total CIP advances were approximately \$44.6 million.

Many Board Directors Oversee Community Lending but Those on the Relevant Committees Have More Responsibility

Results of our survey of 2014 board directors showed that 71 percent of respondents had some level of responsibility for overseeing community and economic development programs at their FHLBanks. Of these respondents, 53 percent were member directors, 31 percent were independent directors (not public interest), and 16 percent were public interest directors. In addition, about 36 percent of these respondents stated that they had an oversight role because they were serving on their FHLBanks' affordable housing and community and economic development committee. According to our survey results, about 70 percent of public interest and independent directors had a career in community and economic development or expertise in community and economic development and the majority of these respondents were appointed prior to HERA. Additionally, six FHLBank board chairs (two member directors, three independent directors, and one public interest director) reported having community and economic development experience.

FHLBank board directors and representatives we interviewed stated that directors who serve on affordable housing and economic development committees have greater responsibility for overseeing their FHLBank's community lending programs and the metrics that monitor and evaluate these programs. Among other things, these board directors review district needs assessments, provide quarterly reports on the status of programs, determine funding allocations, and recommend new products for development. These directors also review AHP implementation and community lending plans by suggesting changes and providing comments during meetings. For instance, they ensure that affordable housing and community lending programs comply with applicable legal and regulatory requirements and are effective in meeting the goals for these programs. Board directors who serve on these committees make suggestions to the full board for approval, and committee chairs provide reports on the committee's activity. Appendix II provides a description of the various affordable housing and community and economic development committees of the 12 FHLBanks.

FHLBank board directors serving on affordable housing and economic development committees generally serve as liaisons to the advisory council and attend advisory council meetings. Six FHLBank board directors stated that the advisory council members provide the boards with an "on-the-ground" assessment of the FHLBank's programs. In addition, the board encourages the advisory council to suggest potential community and economic development products and programs for the board to consider. The role of the board is to determine how possible

products and programs would align with the FHLBank’s risk management profile.

Several Factors Can Affect FHLBanks’ Ability to Increase Community Lending

Our board director survey results showed and FHLBank representatives told us that several factors affected their ability to increase community development lending to member institutions, including FHFA program requirements and statutory limitations, funding for FHLBanks and the availability of developers, collateral requirements, and the financial position of the FHLBanks.

- **FHFA program requirements and statutory limitations:** Fifty percent of those responding to our survey said that FHFA program requirements affected community development lending. FHLBank representatives and five survey respondents commented that both the CIP and CICA program had outdated eligibility criteria and regulatory requirements—for example, they said that statutory limits on eligible incomes impacted the volume of applicants.⁸⁶ Thirty-eight percent of respondents noted that statutory limitations affected community lending. However, 33 percent of respondents did not view statutory limitations as a limiting factor, and 29 percent of respondents were not sure if statutory limitations were a limiting factor.
- **Funding and the availability of developers:** Two frequently mentioned factors affecting community lending were the availability of funds to meet the number of requests from member institutions and the availability of developers and other lenders. Our survey results showed that 47 percent of respondents thought the availability of funds to meet the number of requests from members was a limitation. In addition, 43 percent of respondents stated that the availability of developers and other lenders to fund community and economic development activities limited this type of lending. Seven survey respondents commented that there were a limited number of developers as a result of the economic downturn.
- **FHLBanks’ collateral requirements:** According to 41 percent of respondents to our survey of board directors, collateral requirements were a limitation on community lending activities. In addition, nine survey respondents generally commented that collateral requirements

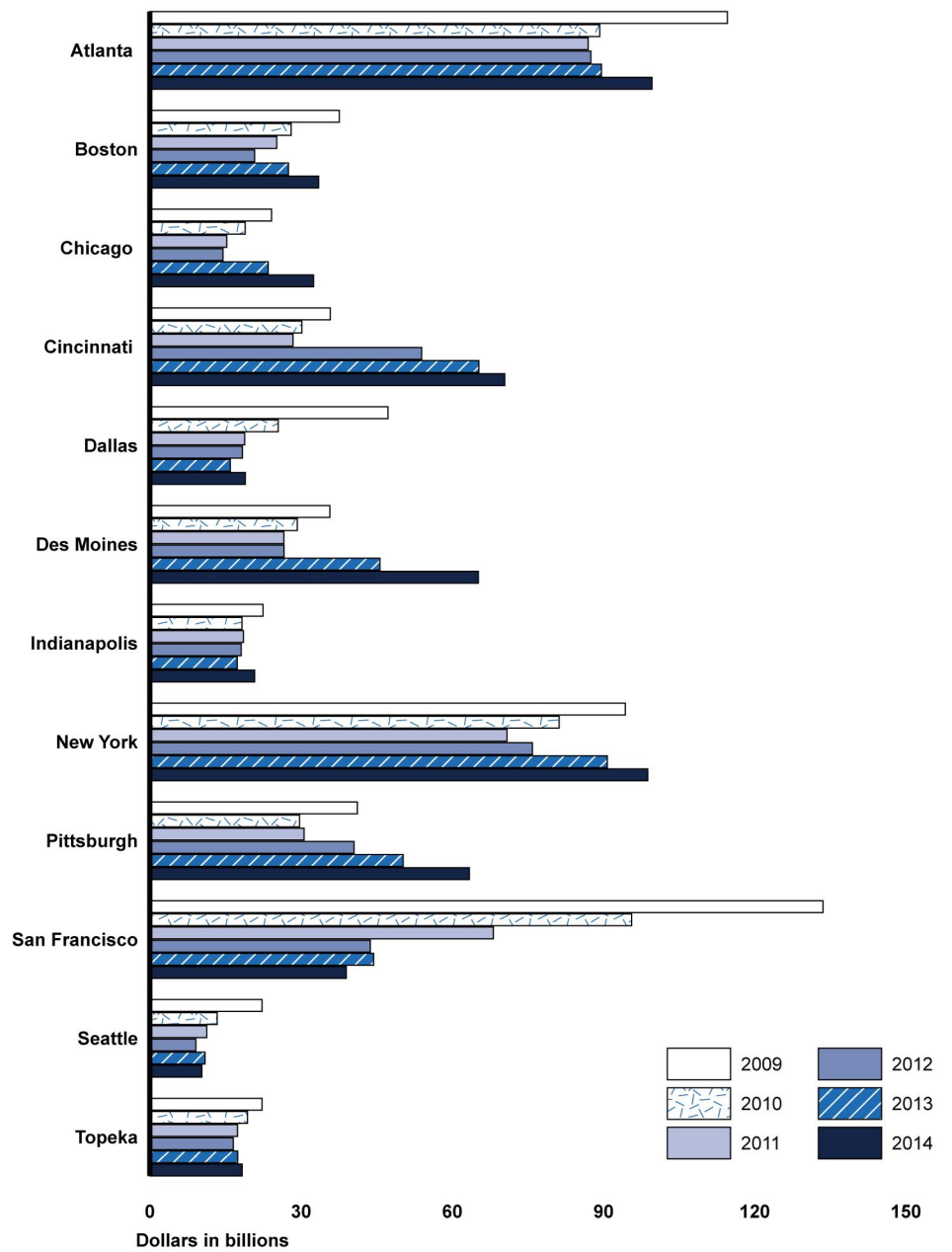
⁸⁶FHFA announced in 2015 that it planned to conduct a thorough evaluation of AHP. FHFA refers to these efforts as the “regulatory refresh” of the program.

of the FHLBanks may have limited CDFIs' borrowing capabilities. We recently reported on issues affecting nondepository CDFIs' ability to become members of the FHLBank System and found that collateral requirements could prevent many of these institutions from becoming members.⁸⁷ CDFIs' primary mission is to provide capital and development services to economically distressed communities underserved by conventional financial institutions. FHLBank representatives and board directors we spoke with from all six FHLBanks generally said that they had discussed expanding the pool of eligible collateral in response to industry needs but that it was important to closely monitor any associated risks. They also told us that the FHLBanks were focused on valuing collateral appropriately and taking the needs of their members into consideration.

- **Financial position of the FHLBanks:** According to our survey of 2014 board directors, 23 percent of respondents indicated that the financial position of their FHLBank affected community lending. Representatives from two of the six FHLBanks (Des Moines and Dallas) we spoke with told us that demand for advances had dropped in recent years because their members had seen an increase in deposits, further limiting their ability to expand their support of community lending. Total outstanding advances across the FHLBank System in 2014 represented an 11 percent decline from their 2009 levels. However, in 2013 and 2014 total outstanding advances across the FHLBank System rose 15 percent and 13 percent, respectively (see fig. 7).

⁸⁷See GAO, *Federal Home Loan Banks: Collateral Requirements Discourage Some Community Development Financial Institutions from Seeking Membership*, [GAO-15-352](#) (Washington, D.C.: Apr. 23, 2015).

Figure 7: Federal Home Loan Bank Advances, 2009 through 2014



Source: GAO analysis of SNL Financial data. | GAO-15-435

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- **Other factors:** We also heard from FHLBank representatives that HERA created a temporary exception to the general restriction against federal guarantees of tax-exempt bonds that enabled bond issuers to use FHLBank letters of credit to enhance tax-exempt bonds for nonresidential community development projects, lowering the cost of those bonds.⁸⁸ This exception expired at the end of 2010. While this exception was not widely used across the FHLBank System, some FHLBanks found it to be successful in increasing community lending. For example, the FHLBank of Atlanta used the exception to restore a hotel and revitalize a hospital in its district. Representatives of the FHLBank of Atlanta told us that they relied on letters of credit to reduce financing costs for their member institutions in order to support community lending, and were satisfied with the results produced by the letters of credit in their district.

Agency and Third Party Comments

We provided a draft of this report to FHFA and each of the 12 FHLBanks for review and comment. Additionally, we provided relevant excerpts of the draft report to SEC for review and comment. We received technical comments from FHFA, SEC, and the FHLBanks of Atlanta, Boston, Chicago, and San Francisco which we incorporated as appropriate.

As agreed with your offices, 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 to FHFA, each of the FHLBanks, the Council of FHLBanks, and SEC. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

⁸⁸Housing and Economic Recovery Act of 2008, Pub. L. No. 110-289, § 3023, 122 Stat. 2654, 2894 (2008) (amending Internal Revenue Code § 149(b)(3) (26 U.S.C. § 149(b)(3))).

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or garciadiazd@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 key contributions to this report are listed in appendix III.

A handwritten signature in black ink, appearing to read 'Daniel Garcia-Diaz', with a stylized flourish at the end.

Daniel Garcia-Diaz
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines (1) the Housing and Economic Recovery Act (HERA) of 2008's governance changes and their implementation; (2) diversity on Federal Home Loan Bank (FHLBank) boards and challenges the Federal Housing Finance Agency (FHFA) and the FHLBanks have faced in trying to increase it; (3) efforts that FHLBanks and FHFA have taken to improve diversity; and (4) FHLBanks' community lending programs and the boards' oversight of them. For the purposes of this report, the concept of diversity includes representation by gender, race, and ethnicity and can encompass differences in backgrounds, skill sets, and experience.

For each of our objectives, we reviewed relevant laws, particularly HERA and FHFA's implementing regulations.¹ We obtained information, for descriptive purposes, from FHFA on the number of member financial institutions for each of the 12 FHLBanks, as well as the asset size of each FHLBank, for 2013 and 2014. We conducted 30 semistructured interviews with 6 of the 12 FHLBanks (Atlanta, Chicago, Dallas, Des Moines, Pittsburgh, and San Francisco). To help ensure that we collected a range of perspectives, we selected these locations based on several criteria, including asset size, number of member institutions, female and minority representation on boards, community and economic development lending activity, and location. We conducted these interviews to learn more about board governance and diversity practices and how the board and bank management oversee FHLBank policies and programs. We generally conducted in-person interviews with officials at four of the six FHLBanks except in specific cases where we could not schedule in-person interviews and held teleconferences for the two remaining FHLBanks. For each of the six locations, we held group interviews with FHLBank management and community investment staff and a separate group interview with representatives from the FHLBanks' advisory councils.² The interviews with FHLBank management and staff

¹Housing and Economic Recovery Act of 2008, Pub. L. No. 110-289, 122 Stat. 2654 (2008). Federal Home Loan Bank Boards of Directors: Eligibility and Elections, 74 Fed. Reg. 51452 (Oct. 7, 2009). Federal Home Loan Bank Directors' Eligibility, Elections, Compensation and Expenses, 75 Fed. Reg. 17037 (Apr. 5, 2010).

²Per 12 U.S.C. § 1430(j)(11) and 12 C.F.R. § 1291.4, each FHLBank's board of directors must appoint an advisory council of 7 to 15 persons who reside in the bank's district and are drawn from community and not-for-profit organizations that are actively involved in providing or promoting low- and moderate-income housing, and community and not-for-profit organizations that are actively involved in providing or promoting community lending in the district.

were conducted jointly. Generally, the number of representatives from FHLBank management and staff differed by FHLBank because we allowed the FHLBanks to determine who should be present based on the questions we sent in advance, but in all cases the FHLBank's corporate secretary participated. For our interviews with advisory councils, we generally interviewed the chair and vice-chair of the advisory council in addition to other advisory council representatives. Additionally, we conducted individual interviews with three board directors (a member, independent, and public interest director) from each of the six FHLBanks. We also interviewed officials from FHFA, including officials within FHFA's Division of Bank Regulation and Office of Minority and Women Inclusion (OMWI). We examined three sets of board meeting minutes for each of the 12 FHLBanks from 2013 to 2014 including (1) full board meeting minutes, (2) committee meeting minutes for each FHLBank's governance committee, and (3) committee meeting minutes for each FHLBank's affordable housing and/or community and economic development committee.³ We reviewed a total of 560 documents on-site at FHFA and used a data collection instrument to independently code relevant information, as discussed later in this appendix. We also interviewed representatives of the Council of the FHLBanks—the trade association representing the 12 FHLBanks. Additionally, we interviewed five trade associations—the American Bankers Association, Independent Community Bankers Association, Community Development Bankers Association, Credit Union National Association, and the National Federation of Community Development Credit Unions. These interviews included representatives from FHLBank member institutions that were also members of these trade associations. Finally, we interviewed representatives from several corporate governance organizations and academic institutions, as discussed later in this appendix.

As part of our work, we conducted a web-based survey of all FHLBank directors who served in 2014. The purpose of this survey was to gather information from FHLBank directors on their roles and responsibilities and obtain their opinions on HERA's changes, as well as to collect data on diversity on the FHLBank boards. We sent a survey to all 189 directors who served during 2014. We received information from FHFA on the

³Most of the FHLBanks provided us meeting minutes until October 2014 because meeting minutes for meetings held past that date had not yet been approved or had not yet occurred at the time of our review. However, to the extent the FHLBanks could make them available to us, they did so.

number of board directors designated for 2014 across all 12 FHLBanks and we confirmed the names and director types for the 189 directors with contacts at each of the FHLBanks. We received completed surveys from 178 board directors, for a 94 percent response rate. Six of the 12 FHLBanks had a 100 percent response rate (Atlanta, Boston, Dallas, Pittsburgh, San Francisco, and Topeka). The remaining six FHLBanks (Chicago, Cincinnati, Des Moines, Indianapolis, New York, and Seattle) had response rates ranging from 80 percent to 94 percent.

The web-based survey was administered from November 19, 2014, to January 31, 2015. Board directors were sent an e-mail invitation to complete the survey on a GAO web server using a unique user name and password. Nonrespondents received three reminder e-mails from GAO to complete the survey. We presented at the Council of FHLBanks' September 2014 meeting to encourage board directors to participate in the survey. As a final step, we contacted the corporate secretaries at each of the FHLBanks and asked for their preference on whether we should send a final reminder e-mail or conduct telephone calls to all nonrespondents. Based on their preferences, we made phone calls to some of the nonrespondents and sent the remaining nonrespondents a fourth and final e-mail reminder about the survey. Because this survey was not a sample survey, it has no sampling errors. The practical difficulties of conducting any survey may introduce nonsampling errors, such as difficulties interpreting a particular question that can introduce unwanted variability into the survey results. We took steps to minimize nonsampling errors by pretesting the survey questions in person and by teleconference with five board directors (including three board chairs) from five different FHLBanks. We also received comments from the Council of the FHLBanks—the trade association representing all 12 FHLBanks—based on their review of our draft survey. We conducted pretests to make sure that (1) the questions were clear and unbiased, (2) the data and information were readily obtainable, and (3) the survey did not place an undue burden on respondents. We made appropriate revisions to the content and format of the survey after the pretests and independent review. All data analysis programs used to generate survey results were independently verified for accuracy. Additionally, in reviewing the answers from board directors, we confirmed that respondents had correctly bypassed inapplicable questions (skip patterns).

HERA's Governance Changes

To determine HERA's governance changes and the implementation status, we reviewed relevant laws and FHFA's regulations, including final rules on director eligibility, elections, and compensation, and interviewed FHFA officials to determine the extent to which HERA's changes to

governance had been implemented.⁴ Specifically, we reviewed information about FHLBank governance in the Federal Home Loan Bank Act; the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; and the Gramm-Leach-Bliley Act. To determine board directors' roles and responsibilities and committee information, we reviewed relevant regulations, FHFA's examination manual (which includes a section on board director responsibilities), and FHLBank bylaws and committee charters.⁵ We also reviewed FHFA's proposed rule on board director responsibilities, corporate practices, and corporate governance matters, and as of April 2015, this rule had not been finalized.⁶ We also analyzed FHFA data on board director compensation for 2013 and compared it to the pre-HERA compensation caps established by the Gramm-Leach-Bliley Act. As part of our semistructured interviews, we asked FHLBank management and staff, FHLBank advisory council representatives, and board directors about their views on HERA's changes and summarized their responses. Additionally, we analyzed responses we received from our survey of board directors for questions related to the impact of HERA's governance changes. Finally, we asked trade associations and representatives from FHLBank member institutions their opinions on HERA's governance changes.

FHLBank Diversity Information

To summarize the composition and diversity of the 2014 board directors, we summarized information received from each of the 12 FHLBanks and analyzed results from our survey. Because demographic information was not publicly available for FHLBank board directors, we requested information from the FHLBanks. Specifically, we sent a request to each FHLBank to collect data on the number of men, women, racial or ethnic

⁴Federal Home Loan Bank Boards of Directors: Eligibility and Elections, 74 Fed. Reg. 51452 (Oct. 7, 2009). Federal Home Loan Bank Directors' Eligibility, Elections, Compensation and Expenses, 75 Fed. Reg. 17037 (Apr. 5, 2010).

⁵First, 12 C.F.R. § 917.1 *et seq.* deals with powers and responsibilities of bank boards of directors and senior management. This section currently remains under the Federal Housing Finance Board regulations which are being relocated, and in some cases rewritten, into FHFA regulations. A proposed rule to remove the entirety of this section and include some of the requirements in 12 C.F.R. § 1236.1 *et seq.* was issued on January 28, 2014 but had not been finalized by April 30, 2015. Responsibilities of Boards of Directors, Corporate Practices and Corporate Governance Matters, 79 Fed. Reg. 4414 (Jan. 28, 2014). Second, 12 C.F.R. § 1236.1 *et seq.* deals with prudential management and operating standards. These regulations have been issued by FHFA.

⁶Responsibilities of Boards of Directors, Corporate Practices and Corporate Governance Matters, 79 Fed. Reg. 4414 (Jan. 28, 2014).

minorities, non-racial or nonethnic minorities, and the total number of board members who served during 2014. We also collected information about board directors who served in 2014 from the U.S. Securities and Exchange Commission's (SEC) 10-K filings, SNL Financial, and FHLBank websites. Additionally, in our survey to 2014 board directors, we asked respondents to self-identify gender, origin, and race. The responses we received from the FHLBanks were generally based on observation while the survey data was self-reported. For data on the number of women and racial or ethnic minorities, we relied on information provided by each of the FHLBanks. For women and minority representation on FHLBank boards, we compared the data received from the FHLBanks to the survey data we received for data reliability purposes.⁷

FHLBank and FHFA Diversity Practices

To determine FHLBank and FHFA practices related to board diversity, we first reviewed relevant regulations and all 12 FHLBanks' policies and procedures for identifying, nominating, and selecting board directors.⁸ We reviewed and analyzed publicly available information including FHLBanks' bylaws, 2013 SEC 10-K filings, and FHLBank websites for information about their nomination and election procedures and whether these documents discussed diversity of board directors. Specifically, we reviewed FHLBank's bylaws to determine whether they generally contained the same information such as whether the board consulted with outside groups or the advisory council for nominees, whether the board considered diversity in the nomination process, or whether the board had a committee in charge of elections. In addition, we reviewed each FHLBank's SEC 10-K filing, Part III, Item 10—where each FHLBank includes information about FHFA regulations and eligibility requirements for independent board director nominees. We reviewed the SEC 10-K

⁷We obtained data from each FHLBank for the number of women on their boards in 2014—the data noted 31 women across the 12 banks (16 percent). In our survey of 2014 board directors we found roughly the same percentage self-identified their gender as female. For example, 165 out of 178 directors responded to our survey question about gender, including 28 directors who self-identified as females—representing 16 percent. For the number of racial and ethnic minorities, we obtained data from all 12 FHLBanks and the data showed that there were 19 racial or ethnic minorities across the banks (10 percent). Of the 159 board directors who responded to our survey questions on race and ethnicity, 21 board directors self-identified as racial or ethnic minorities (13 percent), including 12 that identified as Black or African-American, 1 as Native American, and 2 as Asian Americans. Six board directors identified as Hispanic, Latino, or of Spanish origin.

⁸Federal Home Loan Bank Boards of Directors: Eligibility and Elections, 74 Fed. Reg. 51452 (Oct. 7, 2009).

filings for information about board directors and whether the FHLBanks stated they considered diversity in the nomination of board directors. We also reviewed each FHLBank's website during the 2014 election cycle to determine if the FHLBank posted an announcement about their upcoming director election process, included a timeline of their election process, and checked if the announcement posted encouraged women and racial or ethnic minorities to apply.

We also obtained and reviewed any written nomination policies and procedures, in addition to committee charters, annual reports, and other information provided by each of the FHLBanks, to determine how their board sought nominations for directors, the extent to which they solicited nominees from outside organizations, and whether they had any statements related to board diversity. Additionally, we reviewed GAO survey results on the nomination and election processes and summarized information received from our interviews with FHLBank management and staff and FHLBank board directors. We also reviewed full board meeting minutes (as available) for each of the 12 FHLBanks from 2013 to 2014, including committee meeting minutes from each FHLBank's governance committees. Specifically, using our data collection instrument we independently coded examples of discussion of the bank's nomination and election processes. Lastly, we reviewed HERA requirements for FHLBank elections and interviewed FHFA's Division of Banking and Regulation about their process for reviewing member and independent nominees for directorships and FHFA's member and independent director application forms.

To identify commonly cited practices used to improve board diversity, we reviewed our previous work on diversity management in the financial industry, among federal financial regulators, and on Federal Reserve Bank boards.⁹ We also conducted a literature search to identify practices

⁹See GAO, *Diversity Management: Trends and Practices in the Financial Services Industry and Agencies After the Recent Financial Crisis*, [GAO-13-238](#) (Washington, D.C.: Apr. 16, 2013); *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2008*, [GAO-10-736T](#) (Washington, D.C.: May 12, 2010); *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004*, [GAO-06-617](#) (Washington, D.C.: June 1, 2006); *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, [GAO-05-90](#) (Washington, D.C.: Jan. 14, 2005); and *Federal Reserve Bank Governance: Opportunities Exist to Broaden Director Recruitment Efforts and Increase Transparency*, [GAO-12-18](#) (Washington, D.C.: Oct. 19, 2011).

cited in studies and research papers related to diversity on the boards of directors and in the selection and election of board directors, using key words such as board diversity and directors and board directors and elections or nominations. Out of over 100 articles the literature search returned, we reviewed 31 reports and articles that seemed most relevant.¹⁰ We did not find any articles that directly addressed FHLBank governance so we relied mostly on literature focused on diversity on corporate boards.

We reviewed all of the practices cited in our prior work and the selected literature to develop a list of practices cited by multiple organizations as ones that would promote diversity on boards. We selected practices that we determined were most applicable to FHLBank boards, as their election processes are different from those of public corporations with shareholders.¹¹ We eliminated some diversity practices cited in the literature that pertained only to corporate boards of publicly traded companies, such as reforming shareholder elections, because they were not applicable to FHLBanks. We also interviewed representatives from organizations including Catalyst, The Conference Board, the National Association of Corporate Directors, and researchers from Stanford University's Rock Center for Corporate Governance, and Harvard Business School. We selected these organizations based on their research on topics related to board composition and the effect of diversity on boards. We also reviewed SEC's rule related to corporate disclosure of boards' director and nomination selection processes.¹² We then analyzed the FHLBank practices and compared them to the commonly cited practices.

To review FHFA's steps for improving diversity on FHLBank boards and develop a timeline of events related to diversity on FHLBank boards, we reviewed FHFA's rules from 2009 and 2010 related to independent director elections as well as FHFA's proposed rule to collect diversity information from FHLBank directors.¹³ We interviewed FHFA's OMWI

¹⁰We reviewed reports published between 2009 and November 2014.

¹¹As previously discussed, FHLBanks are private, member-owned cooperatives. The board is more limited in its ability to influence nominees for member director positions.

¹²17 C.F.R. § 228, 229, 240, 249, 270 and 274; Proxy Disclosure Enhancements, 74 Fed. Reg. 68334 (Dec. 23, 2009).

¹³Minority and Women Inclusion Amendments, 79 Fed. Reg. 35960 (June 25, 2014).

officials about the status of the proposed rule and the activities they had undertaken to review FHLBank board diversity. In addition, we reviewed public comment letters for FHFA's proposed rule on board diversity to obtain information about others' views on the proposed rule, for example, the FHLBanks' joint comment letter to FHFA. We also reviewed FHFA's final rule on board diversity when it was issued in May 2015.¹⁴

FHLBank Community
Lending

To summarize the extent of community lending by FHLBanks, we analyzed FHFA data on community and economic development programs—the Community Investment Program (CIP) and the Community Investment Cash Advance (CICA) program—including data on advance commitments from 2008 through 2014. We also reviewed SNL Financial data for information on FHLBank total advances from 2009 through 2014 to assess conditions post-HERA. To assess the reliability of FHFA data, we reviewed information about the data and the systems that produced them and interviewed FHFA officials on how they assess the reliability of data on affordable housing and community lending programs, and reviewed the data ourselves to assess completeness and look for inconsistencies. To verify the accuracy of SNL Financial data, we compared a sample of advance-level data to SEC 10-Ks to look for inconsistencies and interviewed SNL Financial representatives about any changes to their data systems. We consider the information to be reliable for our purposes of determining the level of FHLBank community lending advances and reporting on total advances across the FHLBanks. We also reviewed publicly available documentation from FHLBanks, including community lending plans, advisory council reports, and annual reports, as well as information on each FHLBank's website, to determine if the FHLBank offered a unique community lending program in addition to their system-wide community lending programs. For the 6 FHLBanks we spoke with we asked them to verify that our list of their unique and system-wide programs was accurate. We also reviewed relevant FHFA reports to identify FHLBank policies and programs including their annual reports on housing and community development activities of the FHLBanks.¹⁵ Finally, as discussed above, we reviewed full board meeting minutes including committee meeting minutes from each FHLBank's relevant

¹⁴ Minority and Women Inclusion Amendments, 80 Fed. Reg. 25209 (May 4, 2015). The rule becomes effective on July 6, 2015.

¹⁵ See FHFA's 2013 *Low-income Housing and Community Development Activities of the Federal Home Loan Banks*, October 2014.

affordable housing and/or community and economic development committees. Specifically, using our data collection instrument we independently coded examples of discussion of the FHLBank's affordable housing and community investment policies and programs. As part of our semistructured interviews, we asked FHLBank management and staff, FHLBank advisory council representatives, and board directors about their policies and programs that support community lending, limitations to expanding support of community lending, and interactions between board directors and advisory council representatives. We incorporated these limitations into our survey of board directors and also surveyed board directors on their involvement in overseeing community lending. We summarized responses received to these two questions including open-ended responses on board directors' opinions on any limitations the FHLBanks may face in expanding such lending. We also interviewed the trade associations cited earlier about their members' use of FHLBank community lending programs.

We conducted this performance audit from June 2014 to May 2015 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: Federal Home Loan Bank Affordable Housing and Community and Economic Development Committees, 2014

Each of the 12 Federal Home Loan Bank (FHLBank) boards have a committee that addresses affordable housing and community and economic development programs and policies for their respective FHLBank (see table 6).

Table 6: Affordable Housing and Community and Economic Development Committees, by Federal Home Loan Bank Board, 2014

Federal Home Loan Bank	Committee	Description
Atlanta	Housing and Community Investment Committee	Oversees the Federal Home Loan Bank's (FHLBank) housing and community investment policies, programs, and other relevant matters, including any other FHLBank products, services, and programs that may provide grants, subsidies, or other forms of assistance to support affordable housing and community economic development for low- and moderate-income individuals and communities.
Boston	Housing and Community Development Committee	Oversees the FHLBank's targeted affordable housing and community development programs and activities that support the FHLBank's business, strategic planning, and mission-related objectives, and considers modifications or additions to those programs and activities periodically. The committee is guided by the following principles: (1) appropriate policy setting and oversight of the FHLBank requires that directors be well informed and engaged in the activities and operations associated with the FHLBank's programs for affordable housing and community economic development, and (2) the board and management should clearly communicate expectations for integrity, transparency, and competence.
Chicago	Affordable Housing Committee	Provides policy oversight of the FHLBank's community investment programs and serves as the board's liaison with the Community Investment Advisory Council, and such additional responsibilities that serve both the interests of the FHLBank and the housing needs in the FHLBank's district.
Cincinnati	Housing and Community Development Committee	Guides in the development and oversight of policies and programs related to affordable housing and community economic development. Serves as the principal liaison with the advisory council of the FHLBank.
Dallas	Affordable Housing and Economic Development Committee	Responsible for recommending the appointment and terms of the advisory council members. It provides guidance and leadership to ensure that the FHLBank fulfills its statutory mandates for affordable housing in the district's communities. In addition, the committee reviews and recommends the adoption of the following annual plans and policies: Community Lending Plan, Affordable Housing Program Implementation Plan, and the Affordable Housing Program Conflict of Interest Policy. The committee reviews the administration of the Community Investment Cash Advance programs, which include (a) Community Support and (b) Community and Economic Developments.
Des Moines	Mission, Member and Housing Committee	Oversees all matters pertaining to the FHLBank's member-facing and related support activities, including product and service changes and enhancements, development of new products and services, sales and marketing strategies, and housing and economic development needs in the district.

**Appendix II: Federal Home Loan Bank
Affordable Housing and Community and
Economic Development Committees, 2014**

Federal Home Loan Bank	Committee	Description
Indianapolis	Affordable Housing Committee	Advises the board on issues of affordable housing and community economic development, and oversees the administration of the FHLBank's special housing programs. Additionally, serves as the board's liaison to the Affordable Housing Advisory Council. Responsibilities include issues of policy concerning affordable housing, community economic development, and the FHLBank's regular credit products and services in the context of the FHLBank's mission; the administration of the bank's Affordable Housing Program and Community Investment Program; the planning and execution of housing or community economic development outreach efforts; and the administration of the annual Affordable Housing Program Implementation Plan and targeted Community Lending Plan.
New York	Housing Committee	Serves as the board's liaison to the Affordable Housing Advisory Council and reviews the Council's annual report analyzing the low- and moderate-income housing activity of the FHLBank. Additionally oversees several aspects of the FHLBank's Affordable Housing Program, including the review and approval of applicants, project modifications, conflict of interest, and the project watch list. The committee is responsible for annually reviewing the Affordable Housing Program Implementation Plan and the Community Lending Plan.
Pittsburgh	Affordable Housing, Products and Services Committee	Assists the board on matters pertaining to the FHLBank's mission of affordable housing and community investment as well as its member-facing activities, including, but not limited to, all existing products and services, new product development, marketing and relationship management strategies, member products policies, product pricing strategies, and member-related risks.
San Francisco	Affordable Housing Committee	Responsible for certain of the board's activities relating to the FHLBank's Affordable Housing Program and in other matters pertaining to the FHLBank's Community Investment Cash Advance programs, including the Community Investment Program and the Community Support Program.
	Affordable Housing Program Approval Committee	Responsible for the board's activities relating to subsidy approvals under the FHLBank's Affordable Housing Program.
Seattle	Community Investment Committee	Oversees the FHLBank's community investment products to ensure they are responsive to the market opportunities and credit needs of the bank's district; remain in compliance with plans, applicable regulatory guidelines, and statutory provisions; and adhere to prudent risk tolerances. The committee informs the board of member and community needs and recommends the development and enhancement of community investment products and services to respond to such needs.
Topeka	Housing and Governance	Oversees the FHLBank's housing and economic development, corporate governance and government outreach activities, as well as director elections. The committee is also the board's primary liaison with the FHLBank's Affordable Housing Advisory Council.

Source: GAO analysis of Federal Home Loan Bank board documents. | GAO-15-435

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Daniel Garcia- Diaz, (202) 512-8678, garciadiazd@gao.gov.

Staff Acknowledgments

In addition to the individual named above, Kay Kuhlman (Assistant Director), Beth Ann Faraguna (Analyst-in-Charge), Susan Baker, Emily Chalmers, Pamela Davidson, Katherine Bittinger Eikel, Jill Lacey, Marc Molino, Lauren Nunnally, Kelsey Sagawa, and Jessica Sandler made key contributions to this report.

Appendix IV: Accessible Data

Data Table For Figure 1: Federal Home Loan Bank Districts and Board Directors, 2014

District	Total Members	Total Assets (\$Billion)	All Directors	Member Directors	Independent Directors	Public interest Directors
BOS	450	55.107	15	8	7	2
NYK	332	132.825	19	11	8	2
PIT	303	85.677	16	9	7	3
ATL	959	138.344	14	8	6	2
CIN	704	106.64	17	10	7	2
IND	395	41.853	17	9	8	3
CHI	747	71.841	17	10	7	2
DSM	1155	95.524	15	9	6	2
DAL	860	38.046	16	9	7	2
TOP	794	36.854	16	9	6	2
SFR	346	75.807	15	8	6	2
SEA	316	35.129	15	8	6	2
Total	7,361	913.647	189	108	81	26

Data Table For Figure 2: Representation of Women on Federal Home Loan Bank Boards, 2014

Board	Board size	Women - Corp Sec	Men - Corp Sec	Women %	Men %
Atlanta	14	2	12	14.28	85.71
Boston	15	2	13	13.33	86.66
Chicago	17	2	15	11.76	88.23
Cincinnati	17	2	15	11.76	88.23
Dallas	16	5	11	31.25	68.75
Des Moines	15	3	12	20	80
Indianapolis	17	2	15	11.76	88.23
New York	19	2	17	10.52	89.47
Pittsburgh	16	5	11	31.25	68.75
San Francisco	14	2	12	14.28	85.71
Seattle	14	3	11	21.42	78.57
Topeka	15	1	14	6.666	93.33
All banks	189	31	158	16	84

Data Table For Figure 3: Racial or Ethnic Minority Representation on Federal Home Loan Bank Boards, 2014

Board	Board size	Racial or ethnic minorities	Non-Hispanic Whites	Racial or ethnic minority %	NonHispanic Whites %
Atlanta	14	2	12	14.28	85.71
Boston	15	1	14	6.666	93.33
Chicago	17	1	16	5.882	94.11
Cincinnati	17	2	15	11.76	88.23
Dallas	16	1	15	6.25	93.75
Des Moines	15	0	15	0	100
Indianapolis	17	0	17	0	100
New York	19	4	15	21.05	78.94
Pittsburgh	16	2	14	12.5	87.5
San Francisco	14	3	11	21.42	78.57
Seattle	14	3	11	21.42	78.57
Topeka	15	0	15	0	100
All banks	189	18	171	10	90

Data Table For Figure 4: Board Director Skills by Federal Home Loan Bank, 2014

FHLB	a. Accountin g	b. Affordabl e housing	c. Asset/liabilit y management	d. Auditin g	e. Capital markets transaction s	f. Collateral administratio n	g. Commercia l banking	h. Community and economic developmen t	i. Communit y banking	j. Consumer interests (e.g., banking services, credit needs, consumer financial protection)	k. Corporate governanc e or board operations	l. Credit administratio n	m. Derivative s	n. Financial managemen t	o. Interna l control s	p. Legal and regulatory complianc e	q. Mortgag e finance	r. Organizatio n management	s. Project developmen t	t. Regulator y complianc e	u. Risk managemen t	v. Strategi c plannin g	Total
Atlanta	10	8	13	8	8	10	13	7	12	10	14	10	7	12	10	10	11	12	7	12	12	12	14
Boston	7	7	8	5	8	3	10	9	11	10	12	6	3	9	9	10	11	13	11	11	10	13	15
Chicago	13	6	13	8	9	5	12	9	11	6	12	8	4	15	12	11	13	13	10	11	12	15	16
Cincinnati	11	6	13	8	7	6	11	9	10	8	15	8	3	13	8	10	11	14	11	11	11	12	16
Dallas	10	6	11	5	9	7	11	9	11	7	15	9	1	13	11	14	9	16	9	10	10	15	16
Des Moines	7	2	12	6	5	6	9	6	9	6	10	6	3	10	9	9	5	10	6	10	8	10	12
Indianapol is	11	12	11	6	10	5	9	11	9	9	14	7	7	13	11	11	13	12	9	12	11	13	15
New York	15	9	14	13	13	9	13	12	13	14	16	12	7	15	15	12	14	15	12	13	15	17	17
Pittsburgh	13	10	14	13	11	4	12	11	10	10	16	7	8	15	15	13	12	16	14	16	12	16	16
San Francisco	11	10	12	9	8	5	10	8	10	11	14	9	6	13	12	13	10	12	7	12	10	11	14
Seattle	9	6	8	3	7	4	7	6	8	6	12	5	4	11	11	10	7	10	11	9	10	11	12
Topeka	12	7	14	9	10	10	13	12	13	11	15	12	9	14	14	12	11	14	9	13	14	14	15
Total	129	89	143	93	105	74	130	109	127	108	165	99	62	153	137	135	127	157	116	140	135	159	178

Note: Skills are sorted in descending order based on the total number of directors that reported expertise.

Data Table For Figure 5: Timeline of Events Related to Diversity on Federal Home Loan Bank Boards

- July 2008: Congress enacted Housing and Economic Recovery Act (HERA) of 2008.
- October 2009: FHFA issued a final rule about eligibility and elections that encourages the banks to consider diversity of their boards—both as they request nominees for member directors and as they go through the process of nominating candidates for independent directors. This rule became effective as of November 2009.
- December 2010: FHFA issued a final rule that stated the policies and procedures of each Federal Home Loan Bank (FHLBank) at a minimum should encourage the consideration of diversity in nominating or soliciting nominees for positions on boards of directors. This rule became effective as of January 2011.
- January 2011: FHFA creates OMWI (in response to Dodd-Frank section 342).
- February 2011: FHFA appointed director of Office of Minority and Women Inclusion (OMWI).
- 2013: FHFA OMWI conducts listening tour at FHLBanks and with board directors to discuss diversity and inclusion.
- June 2014: FHFA OMWI issued proposed rule to survey the FHLBanks to collect demographic data from FHLBank boards and require the FHLBanks to provide information related to their outreach activities and recruiting strategies to attract diverse candidates for board seats.
- October 2014: FHFA appointed new director of OMWI.

Data Table For Figure 6: Federal Home Loan Bank Community Investment Cash Advances, 2013 through 2014 (dollars in millions)

Year	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka
2013	0.000000	527.535760	73.917289	57.532751	69.281963	72.065475	37.755000	1149.190000	113.263975	385.250000	36.766375	114.565585
2014	0	642.894981	160.625018	40.5577	30.720196	95.880282	130.7427	799.66	184.649995	490.65	22.281	68.648086

Data Table For Figure 7: Federal Home Loan Bank Advances, 2009 through 2014 (dollars in millions)

Year	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka
2009	114,580,012	37,591,461	24,148,000	35,818,425	47,262,574	35,720,398	22,442,904	94,348,751	41,177,310	133,559,000	22,257,026	22,253,629

Appendix IV: Accessible Data

Year	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka
2010	89,258,000	28,034,949	18,901,000	30,181,017	25,455,656	29,252,529	18,275,364	81,200,336	29,708,439	95,599,000	13,355,442	19,368,329
2011	86,971,000	25,194,898	15,291,000	28,423,774	18,832,834	26,591,023	18,567,702	70,863,777	30,604,801	68,164,000	11,292,319	17,394,399
2012	87,503,000	20,789,704	14,530,000	53,943,961	18,394,797	26,613,915	18,129,458	75,888,001	40,497,787	43,750,000	9,135,243	16,573,348
2013	89,588,000	27,516,678	23,489,000	65,270,390	15,978,945	45,650,220	17,337,418	90,765,017	50,247,435	44,395,000	10,935,294	17,425,487
2014	99,644,000	33,482,074	32,485,000	70,405,616	18,942,400	65,168,274	20,789,667	98,800,000	63,408,355	38,986,000	10,313,691	18,302,950

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