

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.

FEDERAL HOME LOAN BANKS

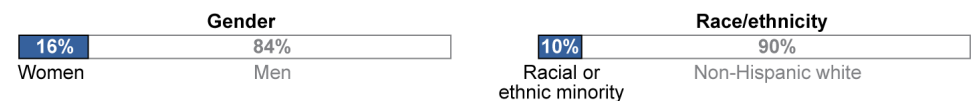
Information on Governance Changes, Board Diversity, and Community Lending

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.