



August 2019

# FEDERAL HOME LOAN BANKS

## Efforts to Promote Workforce, Supplier, and Broker-Dealer Diversity

## Why GAO Did This Study

The FHLBank System consists of 11 regionally based banks that are cooperatively owned by member institutions (such as community banks and credit unions) and of the Office of Finance. The banks, which are regulated by FHFA, provide liquidity for their member institutions to use in support of housing finance and community lending.

GAO was asked to review FHLBanks' implementation of diversity and inclusion matters in workforce and business activities (including the use of suppliers and broker-dealers). This report examines (1) trends in gender, race, and ethnicity in FHLBank workforces, and challenges faced and practices used to maintain and increase a diverse workforce; (2) use of minority- and women-owned suppliers and broker-dealers in 2018, and challenges faced and practices used to increase and maintain their use; and (3) FHFA oversight of FHLBank diversity and inclusion efforts.

GAO analyzed FHLBank and Equal Employment Opportunity Commission data on the banks' workforce, suppliers, and broker-dealers. GAO also reviewed FHFA and FHLBank policies and regulations and previous GAO work on these issues. GAO interviewed FHFA and FHLBank staff and a nongeneralizable sample of external stakeholders knowledgeable about supplier and broker-dealer diversity.

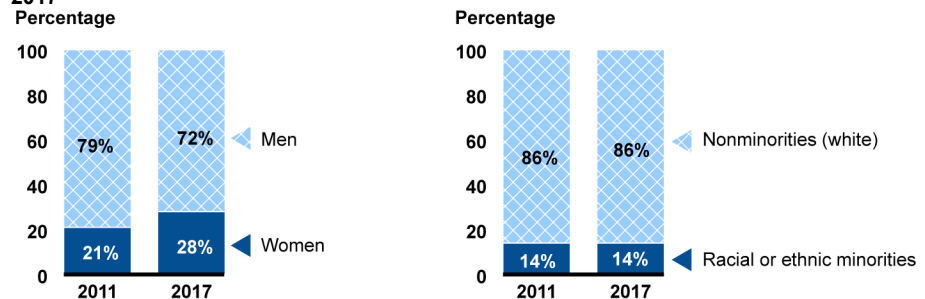
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## What GAO Found

From 2011 to 2017, the share of women in senior management in Federal Home Loan Banks (FHLBank) increased from about 21 percent (35 individuals) to 28 percent (47 individuals). The share of minority senior management remained the same at about 14 percent (23 individuals). The overall share of women employees slightly decreased and minority employees slightly increased during this period, but gender and minority representation varied by individual bank. FHLBanks identified challenges to maintaining and increasing workforce diversity, such as limited hiring opportunities due to low turnover. FHLBanks have been taking steps to promote workforce diversity, such as outreach to organizations that represent women or minorities and incorporation of diversity and inclusion in incentive compensation goals or performance competencies.

**Share of Women and Minorities in Senior Management in Federal Home Loan Banks, 2011 and 2017**



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-589

Note: Federal Home Loan Bank staff said that banks classified senior management differently, and some cut or added positions between 2011 and 2017, which affected overall percentages.

In 2018, use of minority- and women-owned suppliers (for goods and services) and broker-dealers varied among individual FHLBanks. Overall, minority- and women-owned suppliers accounted for 8 percent and 13 percent of procurement expenditures, respectively. Minority- and women-owned broker-dealers accounted for about 3 percent and less than 1 percent of the debt issuance amount, respectively. FHLBanks and the Office of Finance (which issues debts on behalf of the banks) have been taking steps to increase diversity in these business activities, such as conducting outreach to diverse entities. However, external stakeholders said such suppliers and broker-dealers may continue to face some barriers—for example, capital requirements that limit participation by diverse broker-dealers, which generally have fewer resources.

In 2017, the Federal Housing Finance Agency (FHFA) started reviewing the diversity and inclusion efforts of FHLBanks in its annual bank examinations. In the 2017 and 2018 examinations, FHFA found the banks generally took steps to promote diversity and inclusion but also identified areas for improvement, such as improving goals for workforce and supplier diversity. In 2018, FHFA issued a manual and templates for reporting of quarterly and annual diversity data to help ensure consistent reporting of the data. FHFA also began using the quarterly data for ongoing monitoring of the banks' diversity and inclusion efforts.

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## Abbreviations

EEO-1	Employer Information Report
EEOC	Equal Employment Opportunity Commission
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
HERA	Housing and Economic Recovery Act of 2008
OMWI	Office of Minority and Women Inclusion

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August 16, 2019

The Honorable Maxine Waters  
Chairwoman  
Committee on Financial Services  
House of Representatives

The Honorable Joyce Beatty  
Chairwoman  
Subcommittee on Diversity and Inclusion  
Committee on Financial Services  
House of Representatives

The Honorable Carolyn Maloney  
Chairwoman  
Subcommittee on Investor Protection, Entrepreneurship, and Capital  
Markets  
Committee on Financial Services  
House of Representatives

The Housing and Economic Recovery Act of 2008 (HERA) elevated the importance of diversity in the Federal Home Loan Bank (FHLBank) System, which provides liquidity for its member institutions to use in support of housing finance and community lending.<sup>1</sup> For instance, HERA required that each of the 11 regionally based FHLBanks create an Office of Minority and Women Inclusion (OMWI) or designate an office to perform duties and establish policies related to the bank's diversity and inclusion efforts. HERA and its implementing regulation require FHLBanks to promote diversity and ensure the inclusion of minorities and women in employment and minority- and women-owned businesses in their business and activities. HERA also created the Federal Housing Finance Agency (FHFA) and designated it as the regulator of the FHLBanks. FHFA issued a rule in 2010 to implement HERA requirements. The rule requires FHLBanks to report on the diversity of their workforce and their use of diverse suppliers and broker-dealers, which can include businesses owned by minorities, women, individuals with disabilities, and disabled veterans.

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<sup>1</sup>Pub. L. No. 110-289, § 1116(4), 122 Stat. 2654, 2682 (2008).

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Research has found that a diverse workforce can help managers understand and address the needs of a demographically diverse customer base.<sup>2</sup> Also, diversity can be beneficial in solving complex problems and lead to better performance.<sup>3</sup>

You asked us to review the FHLBanks' diversity and inclusion efforts, including in their workforce and use of minority- and women-owned suppliers and broker-dealers in business activities. This is the second report we are issuing on this topic.<sup>4</sup> In this report, we examine (1) trends in the diversity composition (gender, race and ethnicity) for the workforce of FHLBanks in 2011–2017, and any challenges the banks face and practices they use in maintaining and increasing a diverse workforce; (2) the diversity composition for suppliers and broker-dealers FHLBanks used in 2018, and any challenges the banks face and practices they use in maintaining and increasing use of diverse suppliers (for goods and services) and broker-dealers; and (3) FHFA oversight of FHLBanks' diversity and inclusion efforts.<sup>5</sup> This report uses a broader definition of diversity (not only gender, race, and ethnicity) for describing the challenges FHLBanks face and practices they use in maintaining and increasing diversity. For example, the challenges and practices can be relevant not only to minorities and women, but also to other individuals such as those with a disability.

To address all three objectives, we reviewed relevant law and regulations related to FHLBank diversity and inclusion efforts, including FHFA reporting requirements related to banks' diversity and inclusion efforts.

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<sup>2</sup>For example, see Scott E. Page, *The Diversity Bonus: How Great Teams Pay Off in the Knowledge Economy*, (Princeton, New Jersey: Princeton University Press, 2017): 185 and 194; and Stanley F. Slater, Robert A. Weigand, and Thomas J. Zwirolein, "The Business Case for Commitment to Diversity," *Business Horizons*, vol. 51 (2008).

<sup>3</sup>For example, see Page, *The Diversity Bonus*, 210; and Alexa A. Perryman, Guy D. Fernando, and Arindam Tripathy, "Do Gender Differences Persist? An Examination of Gender Diversity on Firm Performance, Risk, and Executive Compensation," *Journal of Business Research*, vol. 69, no. 2 (2016): 579–586.

<sup>4</sup>We conducted a separate review on FHLBank diversity and inclusion efforts related to boards of directors. See GAO, *Federal Home Loan Banks: Steps Have Been Taken to Promote Board Diversity, but Challenges Remain*, [GAO-19-252](#) (Washington, D.C.: Feb. 14, 2019).

<sup>5</sup>The Office of Personnel Management defines diversity and inclusion as a set of behaviors (culture) that encourages employees to feel valued for their unique qualities and experience a sense of belonging. All years in this report are calendar years, unless otherwise noted.

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To identify trends in FHLBanks' workforce diversity, we analyzed data on the gender, race, and ethnicity of FHLBank employees from the 2011–2017 Employer Information Reports (EEO-1) of the Equal Employment Opportunity Commission (EEOC).<sup>6</sup> We focused on gender, race, and ethnicity because EEO-1 reports only include data by gender and race/ethnicity.<sup>7</sup> The FHLBanks submit annual EEO-1 reports to EEOC on their workforces. In addition, they use the gender and race/ethnicity classifications in the EEO-1 report for the workforce diversity data they submit to FHFA. For our report, we modified the EEO-1 categories and used Hispanic, nonminority (white), African-American, Asian, and Other. We included only non-Hispanic employees under nonminority (white), African-American, Asian, and Other. We included Asian American, Native Hawaiian or Pacific Islander under the Asian category, and we included Native American or Alaskan Native, and Two or More Races under Other.

We compared the diversity composition of the banks' workforce to that of the financial services industry in 2017, based on EEOC data.<sup>8</sup> More specifically, we used EEO-1 data on companies in the finance and insurance industry categorized under code 52 of the North American Industry Classification System.<sup>9</sup> We included workforces from all sites of companies with multiple locations and federal contractors. Consequently, our estimates for the financial services industry may not match the analysis found on EEOC's website, which excludes sites of companies with multiple locations with less than 50 employees. We assessed the

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<sup>6</sup>EEO-1 data from 2017 were the most current available at the time of our review. EEOC requires employers with 100 or more employees to annually submit data on the racial/ethnic and gender characteristics of employees by job category. Federal contractors with 50 or more employees also generally must submit annual reports to EEOC. The EEO-1 report race/ethnicity categories are Hispanic or Latino, White, Black or African-American, Native Hawaiian or Other Pacific Islander, Asian, Native American or Alaska Native, and Two or More Races. The Hispanic or Latino category in EEO-1 incorporates Hispanics or Latinos of all races. If an employee declines to self-identify race or ethnicity, employment records or observer identification may be used.

<sup>7</sup>As discussed later, FHLBanks report the gender and racial/ethnic composition of their workforces in annual reports to FHFA. The banks also report to FHFA on the number of individuals with a disability for certain workforce data, such as the number of employees promoted.

<sup>8</sup>For EEOC reporting, the financial services industry consists of five sectors: banks and other credit institutions; funds and trusts (such as investment companies); securities and other activities; insurance; and monetary authorities (such as central banks).

<sup>9</sup>EEOC requires employers to use the North American Industry Classification System to classify their industry.

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reliability of the EEO-1 data through electronic testing, documentation review, and interviews with knowledgeable agency staff, and determined them to be sufficiently reliable for examining the gender and race/ethnicity composition of the FHLBank workforce and comparing it with that in the financial services industry.

We also compared the individual FHLBanks' workforce data with demographic and education data from a Census Bureau survey.<sup>10</sup> Specifically, we calculated the estimated percentages of women and minorities (18–64 years old) with at least a bachelor's degree in the metropolitan statistical areas around each FHLBank's headquarters.<sup>11</sup> Because the survey included a statistical sample of the population, we presented each of our estimated percentages with a corresponding 95 percent confidence interval. We also analyzed the Census Bureau's 2017 vintage population estimation data to provide an overview of the demographics of the populations in the states and U.S. territories serviced by the individual FHLBanks. The estimates were derived from the demographic balance equation, which involves adding births and migrants to the Census baseline and subtracting deaths from the Census baseline. The estimates do not contain confidence intervals because the estimates are not from sampling. To assess the reliability of the Census Bureau data, we reviewed documentation on how the Census estimates were produced and compared our data set estimates with published Census estimates. We found the Census Bureau data were sufficiently reliable for describing the diversity composition of the population in these geographic areas.

To identify the diversity composition for suppliers and broker-dealers FHLBanks used in 2018, we analyzed the 2018 data submitted by the banks to FHFA, including data on transactions and expenditures with diverse suppliers for goods and services and broker-dealers for investment activities. We also analyzed the 2018 data submitted by the Office of Finance to FHFA on the banks' use of diverse broker-dealers for

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<sup>10</sup>We used the 2018 Annual Social and Economic Supplement of the Current Population Survey, which contains demographic information, including age, gender, race, and educational attainment.

<sup>11</sup>Metropolitan statistical areas contain a substantial population and have a high degree of economic and social integration with adjacent communities. Percentage estimates for the smaller metropolitan areas (with populations under 500,000) provide data with less sampling variability than level estimates.



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debt issuance activities.<sup>12</sup> We found that the data prior to 2018 were not comparable across years or banks. However, in 2018, FHFA provided instructions and templates to help ensure more consistent reporting. For consistency with our workforce data analysis, we focused on the banks' use of minority- and women-owned suppliers and broker-dealers. In addition, FHLBanks report to FHFA on their use of suppliers and broker-dealers owned by individuals with disabilities, such as disabled veterans.<sup>13</sup> To provide additional information on the Office of Finance's use of diverse broker-dealers in debt issuance, we also analyzed data on the number of diverse broker-dealers approved by the Office of Finance from 2014 through May 2019. These data include minority- and women-owned, and other diverse broker-dealers such as those owned by disabled veterans.

To assess the reliability of the diversity data on suppliers and broker-dealers that the FHLBanks and the Office of Finance reported to FHFA, we obtained and reviewed information from FHFA to understand the data system the agency uses to collect the data, how the agency uses the data, and any known data limitations. We determined these data to be sufficiently reliable for describing the diversity composition of the banks' procurement and capital markets transactions and their suppliers and broker-dealers.

To identify challenges FHLBanks face and their practices for maintaining and increasing diverse workforces and using diverse suppliers and broker-dealers, we reviewed the banks' 2017–2018 annual OMWI reports and banks' policies related to their diversity efforts. We also interviewed the OMWI directors, a nongeneralizable sample of board directors, other

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<sup>12</sup>FHLBanks issue debt securities through the Office of Finance, as discussed later.

<sup>13</sup>In 2017, the preamble to the Minority and Women Inclusion rule (originally issued in 2010) stated that the rule was amended to affirm that FHLBanks may expand the scope of their outreach and inclusion programs—for example, to include businesses owned by veterans, and lesbian, gay, bisexual, or transgender individuals. We discuss the rule in more detail in the Background.

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staff of all 11 banks, and staff of the Office of Finance and FHFA.<sup>14</sup> We selected four FHLBanks (Atlanta, New York, San Francisco, and Topeka) to conduct a more in-depth review. We selected these banks to achieve variation in diversity composition, workforce size, asset size, and geographic locations.

We previously identified nine key practices for managing workforce diversity.<sup>15</sup> In November 2017, we reported that industry representatives confirmed the practices were still relevant.<sup>16</sup>

We also previously identified four key practices for increasing opportunities for minority- and women-owned asset managers, which we found can be applied to diverse suppliers and broker-dealers.<sup>17</sup> We interviewed external stakeholders knowledgeable about working with diverse suppliers and broker-dealers to verify the relevance of these practices to diverse suppliers and broker-dealers and understand potential challenges these populations face.<sup>18</sup> The stakeholders we

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<sup>14</sup>Because boards at individual FHLBanks oversee bank operations and programs, we interviewed 10 board directors and one bank president, each of whom represents their FHLBank on a systemwide task force on board diversity (the Bank Presidents Conference Board Diversity Task Force), and the board chairs of six FHLBanks (Atlanta, Boston, Des Moines, Pittsburgh, San Francisco, and Topeka). We selected the banks for variation in the share of women and minority directors, asset size, and geographic locations. The FHLBank System also includes the Office of Finance—the fiscal agent for the 11 banks. The Office of Finance’s diversity efforts are not in the scope of this report, but we discuss the office’s role in carrying out part of the banks’ capital markets activities later in the report.

<sup>15</sup>See GAO, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, [GAO-05-90](#) (Washington, D.C.: Jan. 14, 2005).

<sup>16</sup>GAO, *Financial Services Industry: Trends in Management Representation of Minorities and Women and Diversity Practices, 2007–2015*, [GAO-18-64](#) (Washington, D.C.: Nov. 8, 2017).

<sup>17</sup>See GAO, *Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers*, [GAO-17-726](#) (Washington, D.C.: Sept. 13, 2017).

<sup>18</sup>The stakeholders we interviewed included representatives from trade associations, nonprofit organizations, and investment funds that represent or work with diverse suppliers or broker-dealers. These organizations are the Black Chamber of Commerce, California Public Employees’ Retirement System, Greenlining Institute, Hispanic Association on Corporate Responsibility, Hispanic Chamber of Commerce, National Minority Supplier Development Council, National Association of Securities Professionals and its board chair, New York State Common Retirement Fund, and Women’s Business Enterprise National Council.

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interviewed generally confirmed the practices were relevant to our current review. We selected the stakeholders based on their knowledge of diversity and referrals from those we interviewed. We also interviewed four diverse broker-dealers approved by the Office of Finance.<sup>19</sup>

To assess FHFA oversight of FHLBanks' diversity and inclusion efforts, we reviewed FHFA's examination manual (including the module on diversity and inclusion); documentation related to 2017 and 2018 examinations of the banks' diversity and inclusion efforts; and FHFA's data reporting manual and templates for reporting quarterly and annual diversity data. We also interviewed FHFA staff and the OMWI directors of 11 banks to obtain additional information on FHFA's oversight activities, including the annual examinations.

We conducted this performance audit from April 2018 to August 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### Overview of the FHLBanks

The FHLBank System comprises 11 federally chartered banks. The FHLBanks represent 11 districts and are headquartered in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, New York City, Pittsburgh, San Francisco, and Topeka (see fig. 1).<sup>20</sup> Each FHLBank is cooperatively owned by its members—such as commercial and community banks, thrifts, credit unions, and insurance companies. As previously noted, the FHLBank System also includes the Office of Finance, which is the fiscal agent for the 11 banks.

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<sup>19</sup>Information from these interviews cannot be generalized to all diverse broker-dealers. As discussed later in the report, the Office of Finance has approved 18 diverse broker-dealers to conduct debt transactions for the FHLBanks.

<sup>20</sup>Before the 2015 merger of the Seattle and Des Moines FHLBanks, 12 FHLBanks represented 12 districts.

The map displays the United States with states color-coded by region. The West (Alaska, Hawaii, Washington, Oregon, Idaho, Nevada, California, Arizona) is green. The Midwest (Montana, Wyoming, North Dakota, South Dakota, Minnesota, Iowa, Missouri, Wisconsin, Illinois, Indiana, Michigan, Ohio, Kentucky, Tennessee, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Florida) is purple. The Northeast (Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New Jersey, New York, Pennsylvania, Maryland, Delaware) is blue. The South (Texas, New Mexico, Colorado, Nebraska, Kansas, Oklahoma) is orange. The Southeast (Virginia, West Virginia, North Carolina, South Carolina) is light green. Major cities are marked with blue dots and labeled in blue boxes: San Francisco, Des Moines, Chicago, Indianapolis, Cincinnati, Pittsburgh, New York, Boston, Dallas, Topeka, and Atlanta. An inset map shows Alaska, Hawaii, and Des Moines.

Note: The district for the Federal Home Loan Bank of New York also includes Puerto Rico and the U.S. Virgin Islands, and the district for the Federal Home Loan Bank of Des Moines also includes American Samoa, Guam, and the Northern Mariana Islands.

As of December 31, 2018, the total amount of assets each FHLBank held varied widely, as did the number of member institutions in each district (see table 1).

**Table 1: Federal Home Loan Banks Asset Size and Member Institutions, as of December 31, 2018**

Federal Home Loan Bank	Amount of assets (in billions of dollars)	Number of member institutions
Atlanta	154	848
Boston	64	439
Chicago	93	705
Cincinnati	99	646
Dallas	73	823
Des Moines	147	1,365
Indianapolis	65	379
New York	144	328
Pittsburgh	107	291
San Francisco	109	331
Topeka	48	721
<b>Total</b>	<b>1,104</b>	<b>6,876</b>

Source: Federal Home Loan Banks. | GAO-19-589

Note: The amount of assets of the individual banks do not sum to \$1,104 billion due to rounding.

## FHLBanks' Capital Markets Activities

FHLBanks primarily obtain funding to provide loans to their member institutions by issuing debt.<sup>21</sup> The Office of Finance (also regulated by FHFA) issues the debt on behalf of the FHLBanks. FHLBanks' debt products include discount notes (short-term debts) and bonds (short- to long-term debts). The debt transactions can vary in size and be conducted by one or more broker-dealers. Additionally, FHLBanks individually invest in permissible securities, including mortgage-backed securities, which generate additional income for the banks. Broker-dealers are compensated in fees for certain transactions they conduct. Generally, the fees a broker-dealer can earn for capital markets transactions depend on the type of the transactions or the broker-dealer's role in transactions.

The Office of Finance identifies and approves broker-dealers for the banks' debt issuance transactions, including diverse broker-dealers that

<sup>21</sup>FHLBanks borrow funds from investors who buy the banks' debt products.

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are minority-, women-, disabled-, and veteran-owned. As part of its approval process, the Office of Finance assesses the broker-dealers based on their track record in conducting certain debt transactions, and reviews documents including broker-dealers' audited financial statements, documentation on capital sustainability, legal or regulatory issues, diversity certification, procedures, and any other issues that may affect their eligibility or performance. For investment transactions, the banks approve broker-dealers for their own investment needs according to their own qualification requirements. Similar to the Office of Finance's requirements, the banks' qualification requirements can include financial performance and capital requirements.

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## FHFA's Diversity-Related Requirements and Oversight of FHLBanks

To implement requirements in HERA, in December 2010, FHFA issued the Minority and Women Inclusion rule to set forth minimum requirements for FHLBank diversity programs and reporting, as previously noted.<sup>22</sup> Among other things, the 2010 rule required each bank to create its own OMWI or designate an office to perform duties related to the bank's diversity efforts, and establish policies related to diversity and inclusion, including workforce and business activities (which can include suppliers and broker-dealers used for capital markets activities).

The 2010 rule also requires FHLBanks to submit an annual report to FHFA that describes the gender and racial/ethnic composition of the bank's workforce and of the suppliers and broker-dealers used in business activities and past and future diversity and inclusion efforts in these areas. The 2010 rule also requires the banks to report on businesses owned by individuals with disabilities that enter into contracts with the FHLBank and the number of individuals with a disability or disabilities for certain workforce data, including the number of individuals who separated from the bank and the number of employees promoted. In 2017, FHFA added the requirement for each FHLBank to develop a standalone strategic plan on diversity and inclusion or incorporate a diversity and inclusion plan into their general strategic plan.<sup>23</sup>

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<sup>22</sup>Minority and Women Inclusion, 75 Fed. Reg. 81395 (Dec. 28, 2010). The rule became effective in January 2011.

<sup>23</sup>Minority and Women Inclusion Amendments, 82 Fed. Reg. 34388 (July 25, 2017). The rule became effective on August 24, 2017.

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FHFA conducts annual examinations and off-site monitoring of FHLBanks. FHFA's examination includes reviewing the banks' diversity and inclusion efforts, financial reporting, and corporate governance by bank board directors.

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## Our Previous Work on Diversity in the Financial Services Sector

We previously reported on diversity in the financial services sector, including FHLBank board governance and board diversity. In 2017, we reported that representation of women and minorities at the management level in the financial services sector showed marginal or no increase during 2007–2015.<sup>24</sup> In a 2015 report on FHLBank board governance, we found that FHFA and FHLBanks had taken steps to increase board diversity, including creating regulations that encouraged the banks to consider diversity in board candidate selection and developing processes to identify and nominate independent directors.<sup>25</sup> In a 2019 report on FHLBank board diversity, we found that since 2015, FHLBanks increased the share of women and minority directors on FHLBank boards, but the banks continued to face challenges in increasing diversity among directors elected from member institutions.<sup>26</sup> We recommended that FHFA, in consultation with FHLBanks, review the banks' data collection processes for board demographic information and communicate effective practices to banks. FHFA agreed with our recommendation. The agency stated that it planned to engage with FHLBank leadership in 2019 to discuss board data collection issues and explore the feasibility and practicability for FHLBanks to adopt processes that could lead to more complete data on board director demographics.

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<sup>24</sup>[GAO-18-64](#).

<sup>25</sup>GAO, *Federal Home Loan Banks: Information on Governance Changes, Board Diversity, and Community Lending*, [GAO-15-435](#) (Washington, D.C.: May 12, 2015).

<sup>26</sup>[GAO-19-252](#).

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## FHLBanks Increased Gender Diversity in Senior Management in 2011–2017 and Reported Taking Steps to Promote Workforce Diversity

Across the 11 FHLBanks, the share of women in senior-management positions increased from 2011 to 2017, while the share of minorities remained about the same.<sup>27</sup> In the FHLBank workforce overall, the share of female and minority employees was similar in 2011 and 2017. Individual FHLBanks reported a number of challenges in recruiting and retaining a diverse workforce, including limited hiring opportunities due to low employee turnover and a small workforce and competition for diverse talent from larger and better-known companies. Despite these challenges, banks have been taking steps to help maintain or increase a diverse workforce.

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## Share of Women in Senior Management Increased and Minorities Remained about the Same across the FHLBank System, but Varied by Bank

**Female representation.** The share of women in senior management across all 11 FHLBanks increased by about 7 percentage points from 2011 to 2017 based on the most recently available EEOC data.<sup>28</sup> As shown in figure 2, the percentage of women across 11 banks was about 21 percent in 2011 (35 individuals) and 28 percent in 2017 (47 individuals). While female representation in senior management collectively increased for the 11 FHLBanks from 2011 to 2017, there was substantial variation among the individual banks. We discuss representation at individual banks in more detail later in this section.

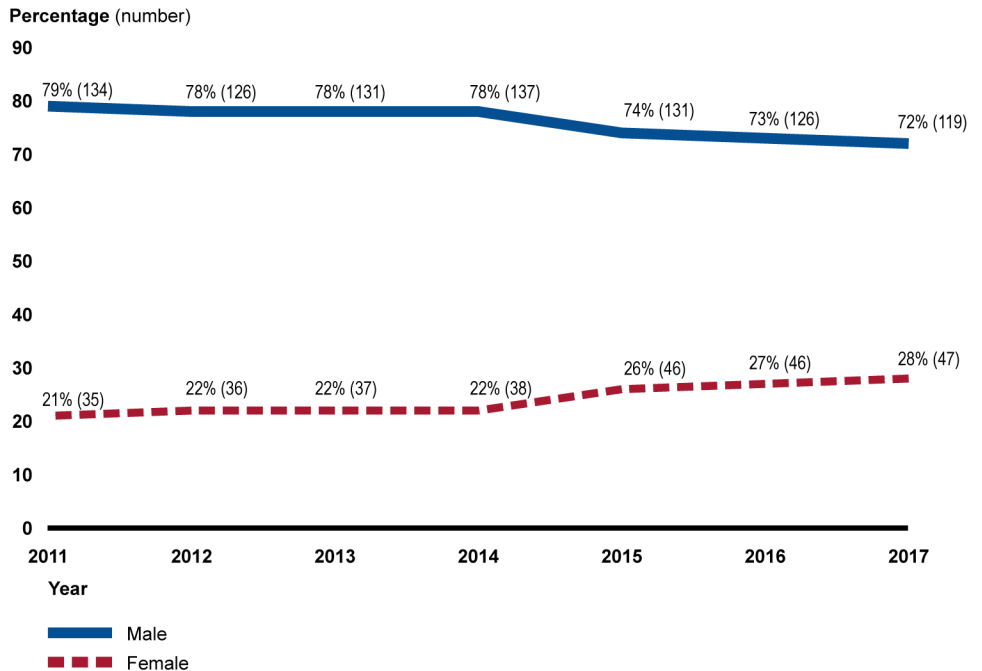
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<sup>27</sup>As previously discussed, the FHLBanks of Des Moines and Seattle merged in 2015. To provide a consistent comparison for this report, we included data for the Seattle bank under the Des Moines bank for 2011–2015.

<sup>28</sup>As required by FHFA, FHLBanks started reporting workforce diversity data (for the preceding year) in 2012. For our report, senior management includes those who plan, direct, and formulate policies, set strategy, and provide the overall direction of the organization. For example, senior management includes chief executive officers, chief operating officers, chief financial officers, presidents or executive vice presidents, chief information officers, chief human resources officers, chief marketing officers, chief legal officers, and management directors. As previously noted, banks report workforce data for individuals with a disability or disabilities to FHFA. For this report, we focused on data on women and minorities.



**Figure 2: Percentage and Number of Senior Management in Federal Home Loan Banks, by Gender, 2011–2017**



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-589

Note: The Equal Employment Opportunity Commission (EEOC) defines executive and senior-level officials and managers as those who plan, direct, and formulate policies, set strategy, and provide the overall direction of the organization. In this report, we refer to executive and senior-level officials as senior managers or senior management. One Federal Home Loan Bank decreased the number of its senior-management positions between 2011 and 2017 by reclassifying those positions, while another bank increased the number of senior-management positions through reclassification, according to staff from each bank respectively. These changes could have contributed to differences in the share of senior managers across years. Some banks have fewer senior-management positions because they interpret EEOC's definition of senior management more narrowly, while others have more senior-management positions because they interpret the definition more broadly. Because of the relatively small number of senior managers at the Federal Home Loan Banks, a small change in the number of such managers can result in a larger change in the associated percentage.

Six banks increased the share of women in senior management during this time period (ranging from about 10 to 20 percentage points); three banks decreased (from about 6 to 13 percentage points); and the share for two banks did not change.

One FHLBank decreased its number of senior-management positions between 2011 and 2017 by reclassifying those positions, while another bank increased the number of senior-management positions through reclassification, according to staff from each bank respectively. Bank staff

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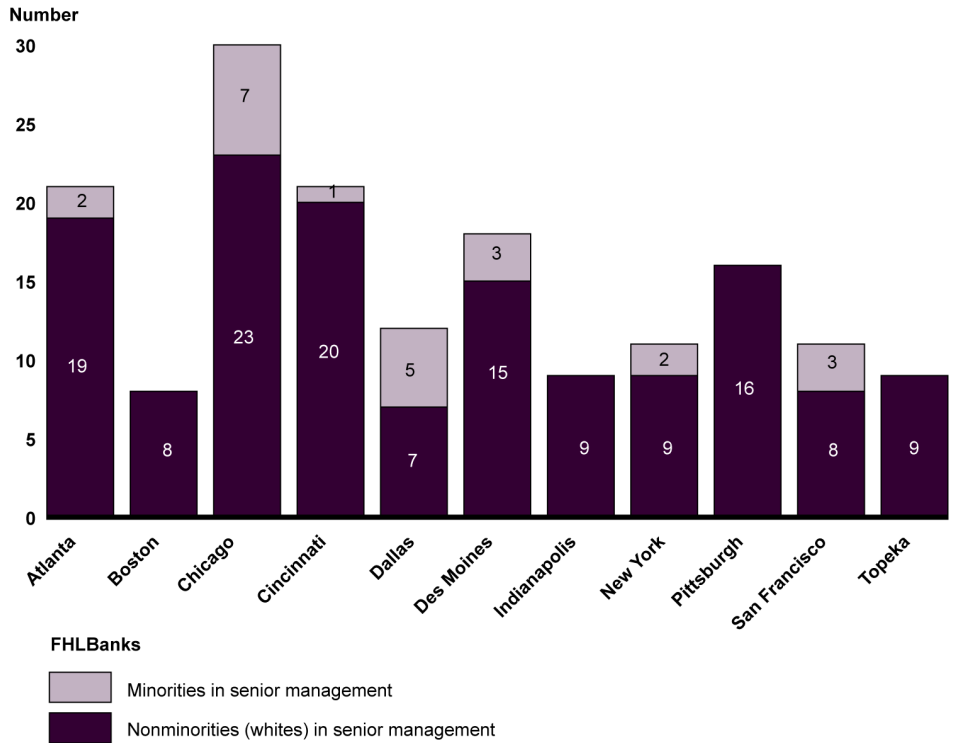
noted some banks have fewer senior-management positions because they interpret EEOC's definition of senior management more narrowly, while others have more senior-management positions because they interpret the definition more broadly. These differences could have affected the comparability of the share of women and minorities in senior management among individual banks in the period we reviewed. Also, because of the relatively small number of senior managers at the FHLBanks, a small change in the number of such managers can result in a larger change in the associated percentage.

**Minority representation.** The share of minority senior management across all 11 FHLBanks was approximately 14 percent (23 individuals) in both 2011 and 2017. Five banks increased the share of minority senior management (from about 1 to 23 percentage points); three banks decreased (from about 6 to 13 percentage points); and three banks did not change.<sup>29</sup> Four banks did not have any minorities in senior management in 2017 (see fig. 3).

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<sup>29</sup>As previously noted, because of the relatively small number of senior managers at the FHLBanks, a relatively small change in the number of senior-level managers can result in a larger change in the associated percentage.

**Figure 3: Number of Minorities and Nonminorities in Senior Management in Federal Home Loan Banks (FHLBank), 2017**

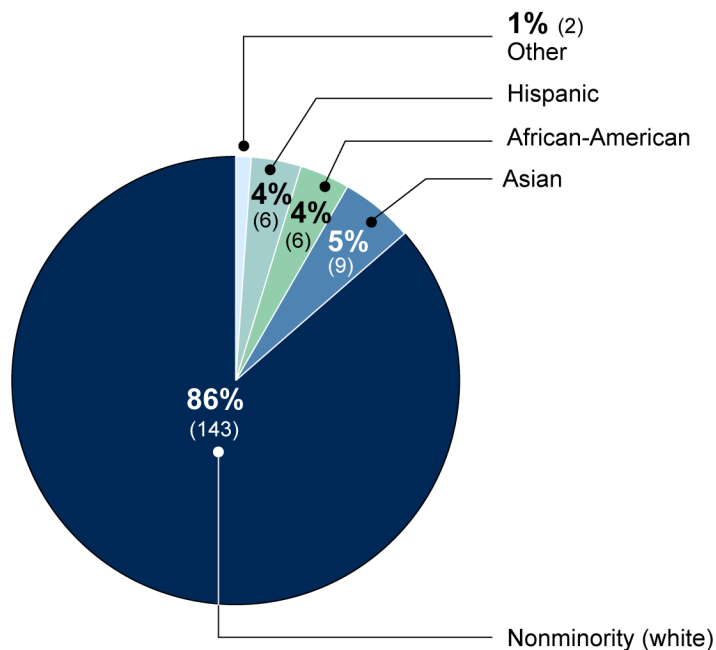


Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-589

Note: The Equal Employment Opportunity Commission (EEOC) defines executive and senior-level officials and managers as those who plan, direct, and formulate policies, set strategy, and provide the overall direction of the organization. In this report, we refer to executive and senior-level officials as senior managers or senior management. Some banks have fewer senior-management positions because they interpret EEOC's definition of senior management more narrowly, while others have more senior-management positions because they interpret the definition more broadly.

The largest racial/ethnic group among senior management in 2017 was Asian (about 5 percent) followed by African-American and Hispanic (both at about 4 percent).<sup>30</sup> See figure 4.

**Figure 4: Percentage (and Number) of Senior Management in Federal Home Loan Banks, by Race/Ethnicity, 2017**



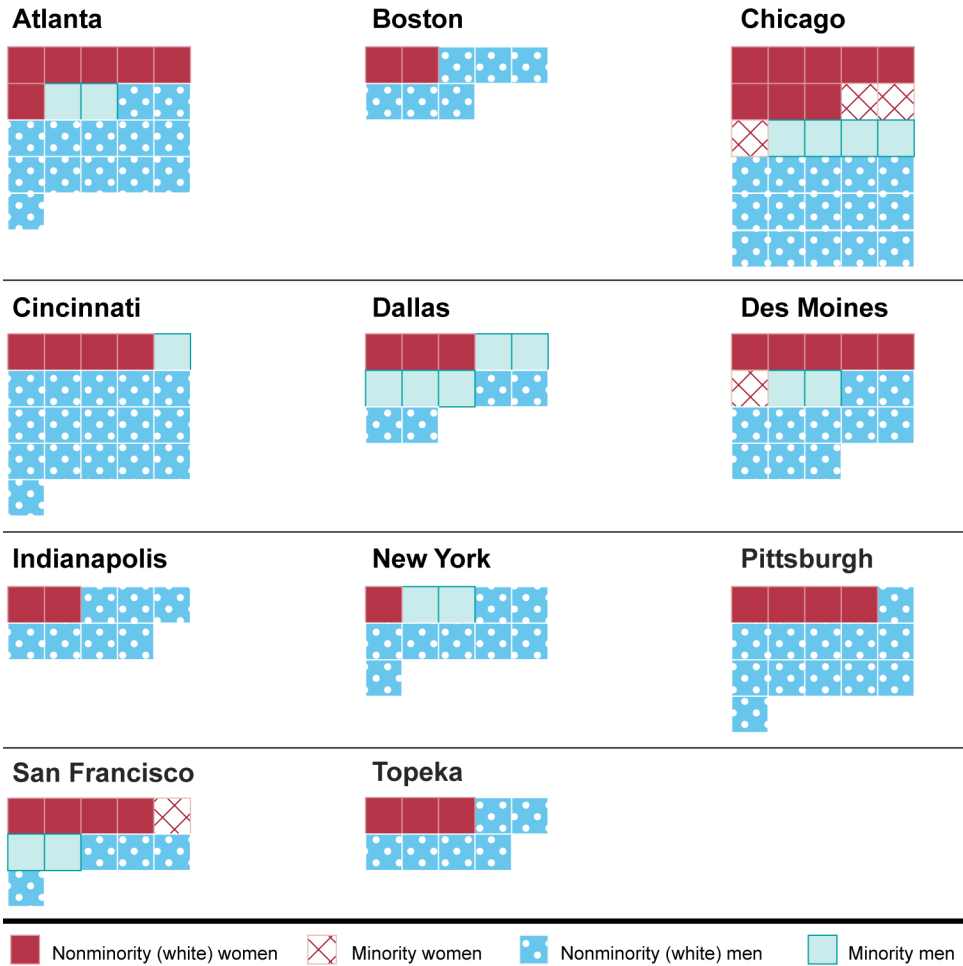
Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-589

Note: We adapted the race/ethnicity categories used in the Equal Employment Opportunity Commission's Employer Information Report (EEO-1), which are Hispanic or Latino, White, Black or African-American, Native Hawaiian or Other Pacific Islander, Asian, Native American or Alaska Native, and Two or More Races. The Hispanic or Latino category in EEO-1 includes Hispanics or Latinos of all races. In this report, we only included non-Hispanic employees under the White, African-American, Asian, and Other categories. We included Asian American and Native Hawaiian or Pacific Islander under Asian. We included Native American or Alaskan Native and Two or More Races under Other.

<sup>30</sup>We adapted the race/ethnicity categories used in the EEO-1 report, which are Hispanic or Latino, White, Black or African-American, Native Hawaiian or Other Pacific Islander, Asian, Native American or Alaska Native, and Two or More Races. The Hispanic or Latino category in EEO-1 includes Hispanics or Latinos of all races. In this report, we only included non-Hispanic employees under the White, African-American, Asian, and Other categories. We included Asian American and Native Hawaiian or Pacific Islander under Asian. We included Native American or Alaskan Native and Two or More Races under Other.

**Female and minority representation combined.** The combined share of female and minority senior management across 11 banks increased 7 percentage points—from about 32 percent (54 employees) in 2011 to 39 percent (65 employees) in 2017. At individual FHLBanks, the percentage of female and minority senior management increased at seven banks by a range of about 3 to 29 percentage points, decreased at three FHLBanks by about 11 to 13 percentage points, and stayed the same at one bank. While combined female and minority representation increased overall, eight of the 11 banks did not have any female minorities in senior-management positions in 2017 (see fig. 5).

**Figure 5: Number of Senior Management in Federal Home Loan Banks, by Gender and Race/Ethnicity, 2017**



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-589

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Note: Each square represents one person. The Equal Employment Opportunity Commission (EEOC) defines executive and senior-level management as those who plan, direct, and formulate policies, set strategy, and provide the overall direction of the organization. In this report, we refer to executive and senior-level officials as senior managers or senior management. Federal Home Loan Bank staff noted that the banks vary in how they classify senior-management positions. These differences also could have affected the comparability of the share of female and minority senior management among individual banks in the period we reviewed. Some banks have fewer senior-management positions because they interpret EEOC's definition of senior management more narrowly, while others have more senior-management positions because they interpret the definition more broadly.

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## Share of Women and Minorities in FHLBank Senior Management Was Similar to That of Financial Services Industry

Using EEOC data, we also examined the composition of the senior-management workforce in the financial services industry to determine how FHLBank senior management compares with the broader financial services industry.<sup>31</sup> The percentage of women, minorities, and women and minorities combined in senior management in FHLBanks overall was similar to the corresponding share of senior management in the financial services industry in 2017. Specifically, the respective percentages for the FHLBanks and the financial services industry in 2017 were approximately

- 28 percent and 30 percent for female senior management;
- 14 percent and 13 percent for minority senior management; and
- 39 percent and 38 percent for female and minority senior management.

Shares of women and minorities in senior management for individual FHLBanks varied more in comparison with the financial services industry in their districts.

- Four banks had a higher share of women in senior management than the financial services industry in their respective bank districts (from about 1 to 14 percentage points higher); and seven banks had a lower share (from about 3 to 15 percentage points lower).
- Five FHLBanks had a higher share of minorities in senior management than the financial services industry in their respective districts (from about 2 to 27 percentage points higher); the other six

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<sup>31</sup>As previously noted, for EEOC reporting, the financial services industry consists of five sectors: banks and other credit institutions; funds and trusts; securities and other activities; insurance; and monetary authorities. As such, the composition of the financial services industry is broader than that of the individual FHLBanks. Nonetheless, the financial services industry offers a useful comparison as it includes financial institutions with workforces that likely were drawn from a similar pool of job candidates.

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had a similar or lower share (from about 1 to 8 percentage points lower).

- Four banks had a higher percentage of women and minorities combined in senior management than the financial service industry in their respective bank districts (from about 7 to 27 percentage points higher), two banks had a modestly lower share (no more than 3 percentage points), and the remaining five banks had a share that was lower by more than 8 percentage points.

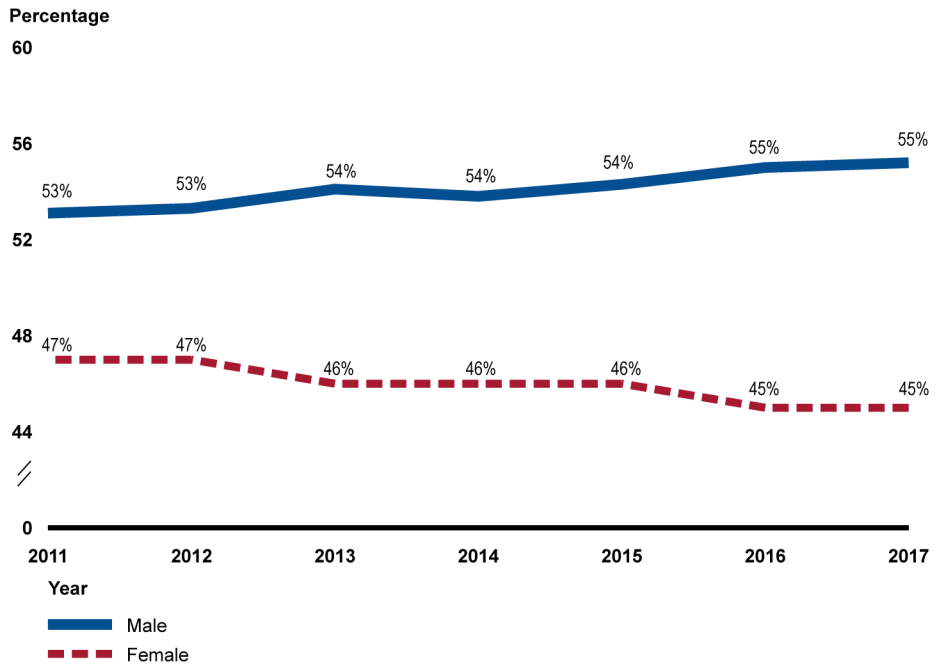
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### Share of Female and Minority Employees Overall Did Not Change Significantly in 2011–2017

We also reviewed the representation of women and minorities in the overall FHLBank workforce and for each FHLBank. Although the difference in the share of female and minority employees across 11 FHLBanks in 2011–2017 was not large, both women and minorities were better represented in first- and mid-level management and professional positions than in senior management.

**Female representation.** Across the 11 FHLBanks, the overall share of female employees in 2017 (about 45 percent) was somewhat lower than the share in 2011 (about 47 percent), although the total number of female employees increased from 1,317 in 2011 to 1,355 in 2017 (see fig. 6). In 2017, the share of women in job categories below the senior-management level was higher than the share of women in senior management. Specifically, the share of women in first- and mid-level management positions was about 41 percent and in professional positions about 44 percent, both higher than the percentage of women in senior management (about 28 percent). Employees in these positions can be potential candidates for the banks' management.

**Figure 6: Percentage of Employees at Federal Home Loan Banks, by Gender, 2011–2017**



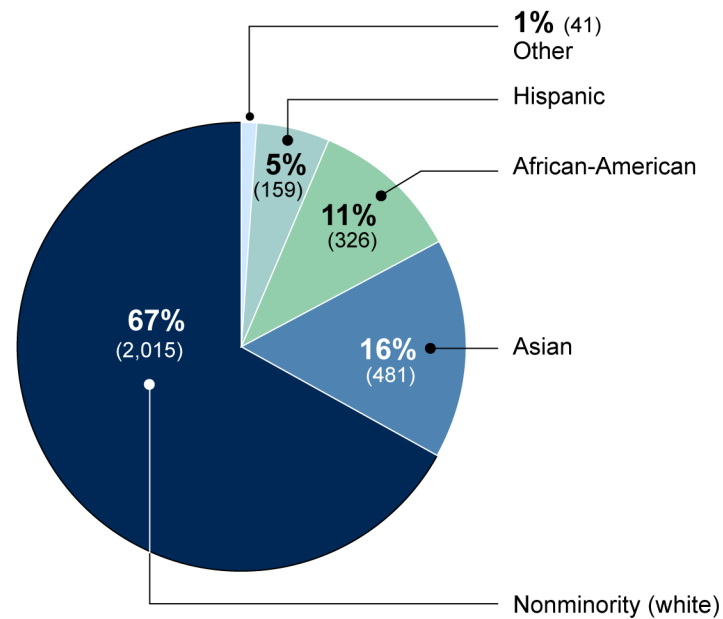
Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-589

**Minority representation.** The share of racial/ethnic minority employees in the overall FHLBank workforce in 2017 (about 33 percent) was slightly higher than the share in 2011 (about 31 percent), and the number of racial/ethnic minorities increased during this period from 864 employees in 2011 to 1,007 employees in 2017. During this time period, the share of minorities in first- and mid-level management positions increased by approximately 6 percentage points (from about 21 percent in 2011 to 27 percent in 2017); the share of professionals increased by about 3 percentage points (from about 34 percent in 2011 to 37 percent in 2017), and the share of minorities in other job categories, such as administrative, decreased by about 3 percentage points (from about 41 percent in 2011 to 38 percent in 2017). Similar to the share of female employees, the share of minority employees in first- and mid-level management (about 27 percent) and professional positions (about 37 percent) was higher than that for senior management (about 14 percent) in 2017.



Among these employees in 2017, Asians accounted for the largest share (about 16 percent), followed by African-Americans (about 11 percent) and Hispanics (about 5 percent), as shown in figure 7.

**Figure 7: Percentage (and Number) of Employees at Federal Home Loan Banks, by Race/Ethnicity, 2017**



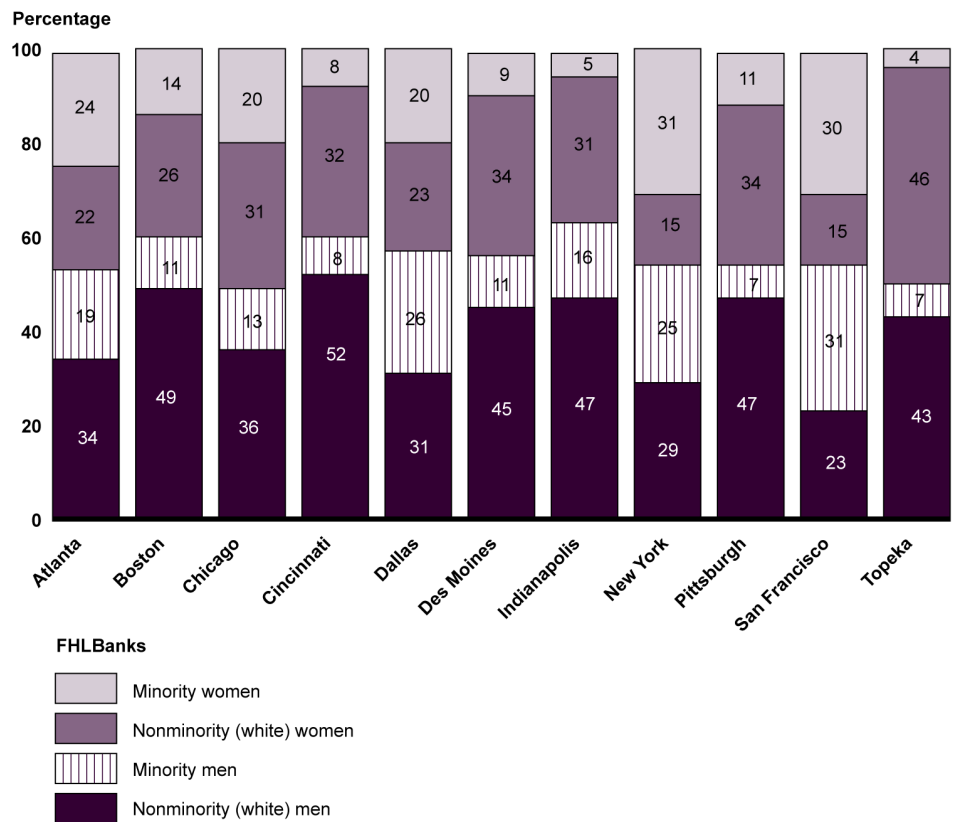
Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-589

Note: We adapted the race/ethnicity categories used in the Equal Employment Opportunity Commission's Employer Information Report (EEO-1), which are Hispanic or Latino, White, Black or African-American, Native Hawaiian or Other Pacific Islander, Asian, Native American or Alaska Native, and Two or More Races. The Hispanic or Latino category in EEO-1 includes Hispanics or Latinos of all races. In this report, we only included non-Hispanic employees under the White, African-American, Asian, and Other categories. We included Asian American and Native Hawaiian or Pacific Islander under Asian. We included Native American or Alaskan Native and Two or More Races under Other.

**Female and minority representation.** When looking at the combined representation of women and minorities in the overall FHLBank workforce, the share of women and minorities was similar in 2011 and 2017 at about 61 percent (1,704 employees in 2011 and 1,847 employees in 2017). The number of female and minority employees increased by 143 (about 8 percent) during this period. Similarly, the number of total employees increased by about 200 (about 8 percent) from 2011 to 2017.

At the individual bank level, the share of female and minority employees increased at six banks (from about 1 to 6 percentage points) and decreased at the remaining five banks (from about 2 to 4 percentage points) from 2011 to 2017. In 2017, the percentage of female and minority employees across the 11 banks ranged from about 48 to 77 percent of the workforce at the individual banks (see fig. 8).

**Figure 8: Percentage of Employees at Federal Home Loan Banks (FHLBank), by Gender and Race/Ethnicity, 2017**



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-589

Note: Percentages for some FHLBanks do not add to 100 percent due to rounding.

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## Share of Women Was Lower among FHLBank Employees Than in the Financial Services Industry and General Population but Share of Minorities Was Similar

Women generally were less represented among FHLBank employees than in the financial services industry (overall and by FHLBank district) and in college-educated populations in selected metropolitan areas. Minorities were similarly represented across the categories. First, we compared the representation of women and minorities among FHLBank employees (overall and by bank) with such representation in the financial services industry (overall and by FHLBank district) in 2017 to help determine how similar the FHLBank workforce was to that of other financial institutions.<sup>32</sup> The workforce in the financial service industry can represent a pool of potential employees for the FHLBanks.

- The share of female employees in FHLBanks overall was about 14 percentage points lower than the corresponding share in the financial services industry (about 45 percent in FHLBanks and 59 percent in the financial services industry) in 2017. Each of the FHLBanks had a lower share of female employees than the financial services industry in the bank's district (by about 2 to 27 percentage points).
- The share of racial/ethnic minority employees was about 33 percent across the FHLBanks and the financial services industry in 2017. Six FHLBanks had a similar or higher share of minority employees than the financial services industry in their respective districts (by about 1 to 21 percentage points); the other five had a lower share (by less than 1 percentage point to about 11 percentage points).
- The combined percentage of female and minority employees across the FHLBanks was about 10 percentage points lower than the corresponding percentage in the financial services industry in 2017 (about 61 percent and 71 percent, respectively). All FHLBanks except one had a lower share in this combined category than the financial services industry in their districts.

Second, we compared the share of women and minorities among each FHLBank's employees in 2017 with the population with at least a bachelor's degree in the metropolitan statistical areas associated with

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<sup>32</sup>As discussed previously, for EEOC reporting, the financial services industry consists of five sectors: banks and other credit institutions; funds and trusts; securities and other activities; insurance; and monetary authorities. As such, the composition of the financial services industry is broader than that of the FHLBanks. Staff from one FHLBank noted that FHLBanks do not have retail operations as some other financial institutions do, which could affect the comparability of the respective workforces.

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each bank's headquarters city in 2018 (see table 2).<sup>33</sup> This population can provide potential employees for the banks' workforce.

- The percentage of female employees in seven banks was lower than the estimated share of females with at least a bachelor's degree in their respective metropolitan areas (smaller than the lower end of the range of the estimated percentage for each area).<sup>34</sup> For the remaining four banks, the share of female employees was similar to that of the estimated share for their respective metropolitan areas (within the range of the estimated percentage for each area).
- The percentage of minority employees in nine banks was similar to the estimated share of minorities in the population in the respective metropolitan areas around each bank's headquarters. In two banks, the share of minority employees exceeded the corresponding estimated percentage for this population (larger than the upper end of the range of the estimated percentage for each area).

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<sup>33</sup>We calculated the estimated percentages of women and minorities ages 18–64 with at least a bachelor's degree in the metropolitan statistical areas around each FHLBank's headquarters using data from the Current Population Survey's 2018 Annual Social and Economic Supplement at the metropolitan statistical area level. Metropolitan statistical areas contain a substantial population and have a high degree of economic and social integration with adjacent communities.

<sup>34</sup>Because the Current Population Survey's data were based on a sample of the population, the estimated percentages are expressed as a range of values as shown in parentheses in table 2. For the lower and upper ends of the range, we generated a 95 percent confidence interval.

**Table 2: Percentage of Women and Minority Employees, by Federal Home Loan Bank (FHLBank) in 2017 and Estimated Percentage of Women and Minorities in Metropolitan Areas of FHLBank Headquarters in 2018**

Federal Home Loan Bank	Share of Females		Share of Minorities	
	Percentage of female employees in FHLBank in 2017	Estimated percentage of women with at least a bachelor's degree in metropolitan statistical area around FHLBank headquarters in 2018 (range of estimated percentages)	Percentage of minority employees in FHLBank in 2017	Estimated percentage of minorities with at least a bachelor's degree in metropolitan statistical area around FHLBank headquarters in 2018 (range of estimated percentages)
Atlanta	46	56 (52, 59)	43	46 (40, 53)
Boston	40	53 (51, 56)	25	23 (20, 26)
Chicago	51	53 (51, 56)	34	33 (29, 37)
Cincinnati	40	53 (48, 58)	16	16 (11, 24)
Dallas	43	55 (52, 57)	46	44 (39, 49)
Des Moines	43	50 (39, 61)	20	15 (7, 27)
Indianapolis	37	57 (50, 64)	22	18 (13, 25)
New York	46	53 (51, 54)	56	38 (36, 41)
Pittsburgh	45	51 (45, 57)	18	18 (13, 25)
San Francisco	46	51 (47, 54)	62	54 (48, 61)
Topeka	50	53 (39, 67)	11	6 (1, 37)

Source: GAO analysis of data from Equal Employment Opportunity Commission and Census Bureau. | GAO-19-589

Notes: We calculated the estimated percentages of women and minorities (18-64 years old) with at least a bachelor's degree in the metropolitan statistical areas around each FHLBank's headquarters using data from the Census Bureau's 2018 Annual Social and Economic Supplement of the Current Population Survey at the metropolitan statistical area level. Metropolitan statistical areas contain a substantial population and have a high degree of economic and social integration with adjacent communities. Because the Census supplement includes a statistical sample of the population, we presented our estimated percentages with corresponding 95 percent confidence intervals (expressed as a range of values). Percentage estimates for the smaller metropolitan areas (populations under 500,000) provide data with less sampling variability than level estimates. The level estimate for Topeka is not statistically significant at the 95 percent confidence level. We used 2017 data from the Equal Employment Opportunity Commission (the most recently available) for FHLBank employee demographics.

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To provide additional context on the demographic composition of the population served by the FHLBanks, we compared the share of female and minority employees at each FHLBank in 2017 with the share of the female and minority population in each bank district (all of which are multistate areas).<sup>35</sup> All FHLBanks except two had a lower share of female employees than the female share of the population in their respective bank districts (by at least 5 percentage points). The percentage of minority employees at one bank was higher than the share of the minority population in its bank district (by about 11 percentage points); the individual percentages at five banks were similar (no more than 3 percentage points difference); and the individual percentages at the remaining five banks were lower by at least 4 percentage points.

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## FHLBanks Reported Some Challenges and Have Been Taking Steps to Help Maintain and Increase a Diverse Workforce

### FHLBanks Reported Ongoing Challenges to Recruiting and Retaining a Diverse Workforce

FHLBanks reported continuing challenges to recruiting and retaining a diverse workforce, including the following:

**Low turnover rates and small workforce.** Staff of four banks said that low turnover rates have limited opportunities for hiring or promoting diverse candidates. For example, the percentage of employees leaving individual banks in 2017 ranged from about 5 to 12 percent. In comparison, the average estimated separation rate for the financial services industry as a whole was about 25 percent in 2017.<sup>36</sup> Additionally, staff of four banks noted that the size of their workforce is relatively small, which also limits opportunities for hiring and promotion. The number of

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<sup>35</sup>We used 2017 Census population estimate data for this analysis. The Census's population estimations were derived from the demographic balance equation, which adds births and migrants to the Census baseline and subtracts deaths from the Census baseline. The estimates do not contain residuals.

<sup>36</sup>Department of Labor, Bureau of Labor Statistics, *Job Openings and Labor Turnover Survey*. The Job Openings and Labor Turnover Survey is a monthly survey on job openings, hires, and separations for various industries.

employees in individual FHLBanks ranged from 202 to 462 in 2017 (see table 3).

**Table 3: Number of Employees, by Federal Home Loan Bank, 2017**

Federal Home Loan Bank	Number of employees
Atlanta	325
Boston	202
Chicago	462
Cincinnati	227
Dallas	205
Des Moines	319
Indianapolis	237
New York	308
Pittsburgh	215
San Francisco	287
Topeka	235
<b>Total</b>	<b>3,022</b>

Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-589

**Population in geographic location not diverse.** Staff of four banks stated that their geographic location makes it challenging to recruit diverse talent because the population in the area is relatively undiverse. Two banks indicated it can be difficult to attract potential candidates to work in their geographic location. Despite these stated challenges, as we previously noted, the 2017 share of minorities in each bank was similar to or exceeded the 2018 share of minorities with at least a bachelor's degree in their respective metropolitan areas.

**Competition for women and minority candidates.** Staff of five banks said that competition for diverse talent is high because banks compete with other companies in their districts that are larger or have better brand recognition, such as large investment banks and technology companies. For example, staff of four banks noted that the FHLBanks are not well known compared with these larger organizations. Staff from one bank noted that the compensation the bank offered was lower than that of larger firms—including for internships—which can make it difficult to attract diverse candidates. Staff of two banks also noted that relatively low unemployment rates in their areas mean that diverse candidates have

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other employment options, making it more challenging to attract such candidates.

**Difficulty aligning bank needs and requirements with skillsets of diverse candidates.** Staff of six banks said that there may be few women or minority candidates who meet specific skill or job requirements. For example, staff of five of these banks noted that it can be challenging to find diverse candidates in certain technical fields, such as information technology. Staff of three banks also noted that diversity in the financial services industry overall is limited, which contributes to a limited pool of diverse candidates.

#### FHLBanks Described Practices They Use to Help Maintain and Increase Workforce Diversity

We found that FHLBanks implemented and continue to implement a variety of practices to maintain and increase diversity in their workforces, based on our review of the FHLBanks' annual Office of Minority and Women Inclusion (OMWI) reports, FHFA examination documents, FHLBank diversity and inclusion strategic plans, and interviews with FHLBank staff from all 11 banks. These practices align with leading practices we previously identified on diversity management.<sup>37</sup> The leading practices can help the banks address some of the challenges described previously and recruit and retain a diverse workforce, which also can contribute to a more diverse pipeline for management positions.

**Bank leadership commitment to diversity and inclusion.** All 11 FHLBanks have implemented practices intended to demonstrate leadership's commitment to diversity and inclusion, which included the following examples.

- All 11 FHLBanks include workforce diversity objectives in their diversity and inclusion strategic plans and generally established goals that were quantitative, qualitative, or both related to their workforce diversity programs, based on our review of the banks' annual reports. Examples of such goals included increasing employee awareness of

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<sup>37</sup>See [GAO-05-90](#). The nine leading diversity practices we identified are (1) commitment to diversity as demonstrated and communicated by an organization's top leadership; (2) the inclusion of diversity in an organization's strategic plan; (3) diversity linked to performance, with the understanding that a more diverse and inclusive work environment could help improve productivity and individual and organizational performance; (4) measurement of the impact of various aspects of a diversity program; (5) management accountability for the progress of diversity initiatives; (6) succession planning; (7) recruitment; (8) employee involvement in an organization's diversity efforts; and (9) training for management and staff about diversity.



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diversity and inclusion and percentage targets for workforce diversity composition and recruitment. The FHLBanks also incorporate diversity and inclusion into their incentive compensation goals or performance competencies. An example of such goals relates to participation in diversity and inclusion training and other events.

- All 11 FHLBanks track data on the diversity composition of their workforce; external and internal applicants for open positions, new hires, promotions, and separated employees; and progress in meeting diversity and inclusion goals and objectives.
- The OMWI officers at all 11 banks report directly to the bank's chief executive officer/president or the equivalent of the chief operating officer. The board of each bank also receives periodic updates on the bank's diversity and inclusion efforts.
- Staff of eight banks said that senior leaders, such as the chief executive officer, express their commitment to diversity and inclusion through participation in internal diversity and inclusion events, in written materials, and by sponsoring employee groups that represent diverse employees.

**Targeted recruitment.** All 11 banks reported several targeted diversity recruitment efforts to increase recognition and build a potential pipeline of diverse employees. For example, all banks conducted outreach to colleges that have diverse student populations, according to banks' annual reports and staff, and FHFA examination documents. All banks also conducted outreach to local and national professional and other organizations that represent diverse communities. Seven banks indicated that they engage with their communities, such as by participating in community events and volunteer activities, and partnering with community organizations. They noted that these efforts can help enhance their bank's brand recognition and in turn can help recruit and retain diverse employees.

To build a pipeline of diverse employees, all 11 banks offered a college internship program and six banks offered a high school internship or work study program for which they try to recruit diverse candidates. The banks also engaged in efforts to build the potential pipeline of diverse employees in the long term, such as by participating in programs or activities to increase skillsets among young women and minorities in technical or financial services fields.

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**Employee involvement/feedback.** All 11 banks described efforts to create a more inclusive environment for employees, according to banks' annual reports and bank staff. For example, nine banks have an employee resource group or other organization representing employees, and can engage in diversity and inclusion activities, such as professional development and cultural events, according to the banks' annual reports. Nine banks reported that they conducted employee surveys or meetings to obtain feedback from employees on diversity and inclusion efforts, according to the banks' annual reports and staff. Staff from one bank told us that when conducting interviews with employees leaving their organization, they include a question specifically on diversity and inclusion to identify potential employee retention practices.

**Training on diversity and inclusion topics.** Ten banks offered training courses on diversity and inclusion topics for all employees, according to the banks' annual reports and FHFA examination documents. Ten banks hosted events or informal training related to diversity and inclusion, including events sponsored by employee groups, according to bank documents and staff.

**Development of succession plans that address diversity and inclusion.** All 11 banks engaged in succession planning, but FHFA's 2018 diversity and inclusion examination found that the banks addressed diversity and inclusion in their succession planning to varying degrees. FHFA staff explained that banks should evaluate potential successors on their demonstrated ability to manage diversity and inclusion using performance competencies. Examples of such competencies include assessing candidates on their ability to include diverse groups when making team decisions and supporting the bank's diversity and inclusion efforts.

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## FHLBanks' Use of Diverse Suppliers and Broker-Dealers Varied among Banks in 2018, and FHLBanks Implemented Key Diversity Practices

### FHLBanks Used a New Format for More Consistent Reporting in 2018 and Varied in Their Use of Diverse Suppliers and Broker-Dealers

FHFA worked with FHLBanks and developed instructions and templates for more consistent reporting of 2018 data on the banks' use of diverse suppliers and broker-dealers, including those that are minority- and women-owned.<sup>38</sup> FHLBanks' use of minority- and women-owned suppliers and broker-dealers in 2018 varied among the banks. Banks also told us there are challenges that may slow or limit their use of diverse suppliers and broker-dealers.<sup>39</sup> They generally implemented key practices to help ensure they consider diverse suppliers and broker-dealers in searches for business partners.

**Data reporting.** Before 2018, FHFA had not issued a standardized data reporting template for FHLBank data on use of diverse suppliers and broker-dealers; therefore, data were not comparable across banks or years. As part of the requirements of FHFA's 2010 Minority and Women Inclusion regulation, in 2012 the banks and the Office of Finance began reporting data on their business activities with diverse businesses (minority-, women-, and disabled-owned) in the preceding year.

However, the data prior to 2018 were not comparable across years and banks because the banks did not use consistent methods or definitions in their data reporting. To develop a common understanding and make the data more consistent, FHFA and the banks began working together in 2017 to develop a data dictionary and data templates. FHLBanks used the new templates to report their 2018 data.

**Minority- and women-owned suppliers.** In 2018, FHLBanks varied in their use of minority- and women-owned suppliers (see fig. 9). The 11 banks entered into more than 2,900 supplier contracts overall in 2018 (ranging from 60 to 477 per bank). Of the total number of contracts, about 10 percent (279 contracts) were with minority-owned suppliers and about

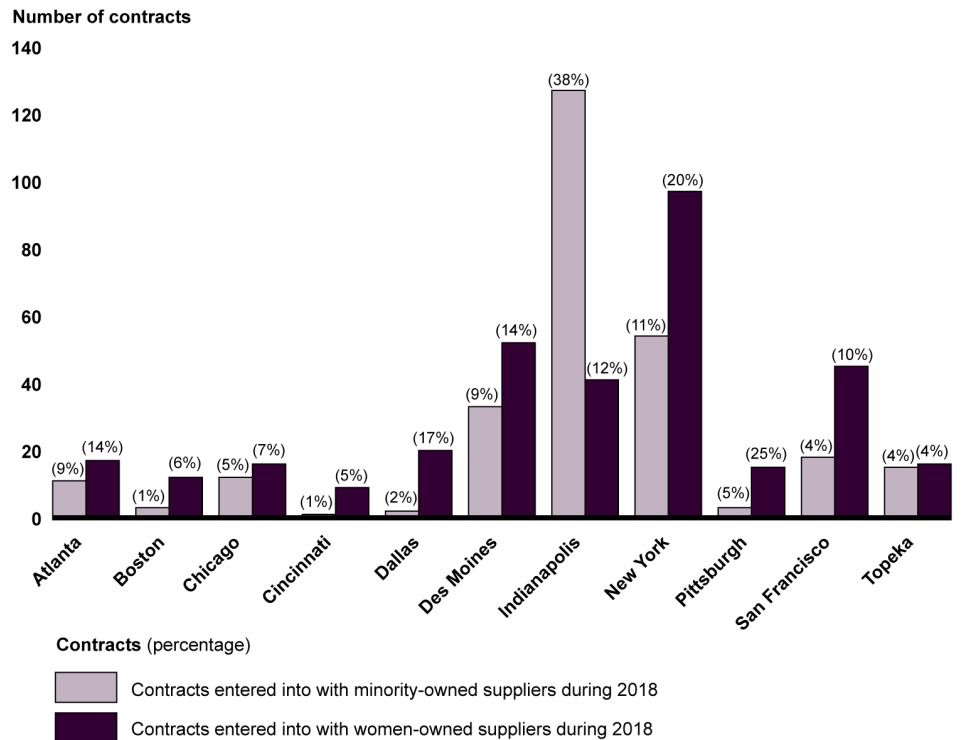
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<sup>38</sup>As previously discussed, FHLBanks also report to FHFA on their use of suppliers and broker-dealers that are owned by individuals with disabilities, such as disabled veterans. For this report, we focused on data on minority- and women-owned businesses.

<sup>39</sup>As noted earlier, we use a broader definition of diversity (not only gender, race, and ethnicity) for describing challenges FHLBanks face and practices they use in maintaining and increasing use of diverse suppliers and broker-dealers. For example, FHLBanks can expand the scope of their outreach and inclusion programs to include businesses owned by veterans, and lesbian, gay, bisexual, or transgender individuals.

12 percent (340 contracts) were with women-owned suppliers.<sup>40</sup> Among the individual banks, the share of contracts entered into with minority-owned suppliers in 2018 ranged from about 1 percent to 38 percent and from about 4 percent to 25 percent for contracts with women-owned suppliers.

**Figure 9: Number and Percentage of Contracts Federal Home Loan Banks Entered into with Minority- and Women-Owned Suppliers in 2018, by Bank**



Source: GAO analysis of Federal Home Loan Banks data. | GAO-19-589

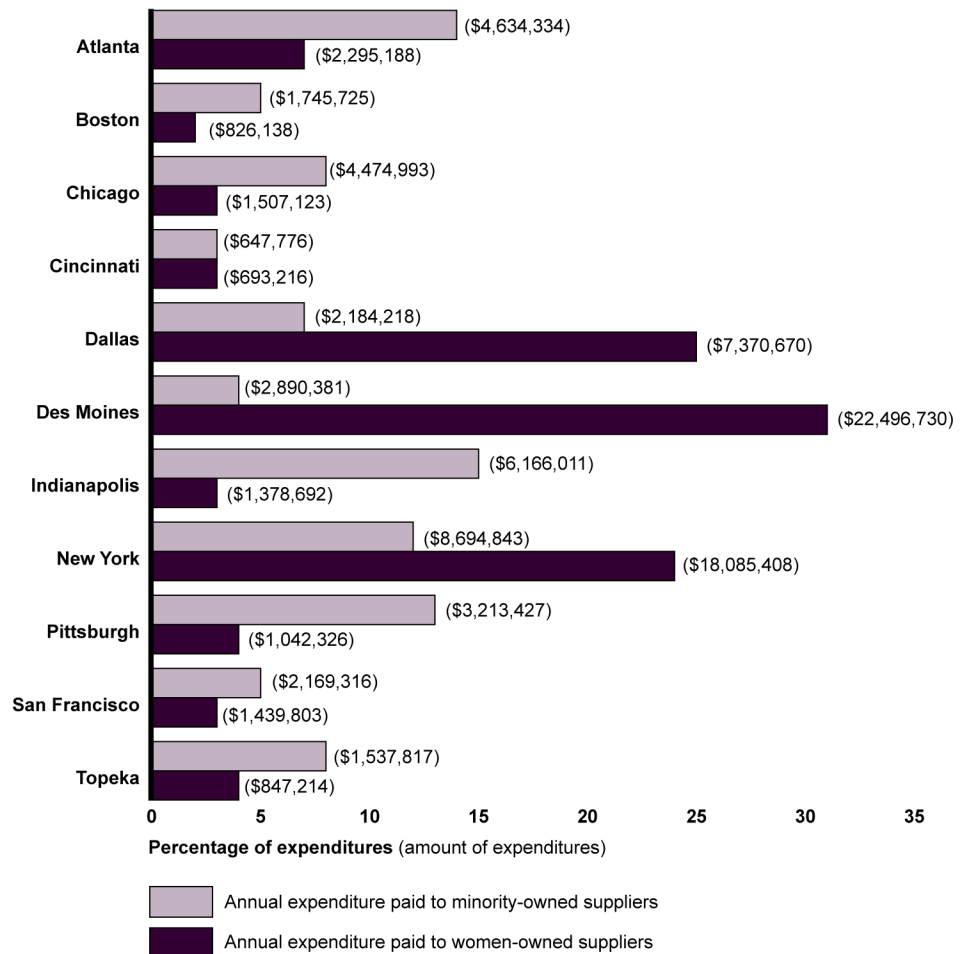
In 2018, FHLBanks' total supplier expenditure was about \$453 million, of which about 8 percent and 13 percent, respectively, went to minority- and women-owned suppliers. Among the individual banks, the percentage of the total annual 2018 expenditure that went to minority-owned businesses varied from about 3 percent to 15 percent, and to women-owned

<sup>40</sup>To avoid double counting, we were not able to report data on minority- and women-owned suppliers combined because FHLBanks report the two groups of suppliers separately. Minority-owned suppliers also can be women-owned, or vice versa.

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businesses from about 2 percent to 31 percent (see fig. 10). According to FHFA staff, annual expenditure paid to suppliers can vary from year to year. More specifically, an increase in a bank's annual supplier expenditure in any one year is usually related to long-term, large investments made during that year, such as construction costs or investment in technology products and services. FHFA staff noted that these one-time increases in expenditures can provide opportunities to increase the use of diverse suppliers. FHFA staff said bank data showed that for example, in 2018, three FHLBanks each had large one time investments in construction or building maintenance.

**Figure 10: Percentage and Amount of Federal Home Loan Banks' Annual Expenditure with Minority- and Women-Owned Suppliers, 2018, by Bank**



Source: GAO analysis of Federal Home Loan Banks data. | GAO-19-589

Note: According to staff from the Federal Housing Finance Agency, annual expenditure paid to suppliers can vary from year to year. For example, an increase in a bank's annual supplier expenditure in any one year is usually related to long-term, large investments made during that year, such as construction costs or investment in technology products and services.

**Diverse broker-dealers in debt transactions.** FHLBanks conduct capital markets transactions with broker-dealers that meet certain qualifications (such as capital sustainability and financial performance), including those that have been approved as diverse broker-dealers. As previously mentioned, these transactions include debt issuance and investments. The Office of Finance acts as an agent to the banks and

primarily functions to issue and service all debt transactions. In addition, it identifies and approves broker-dealers for the banks' debt issuance transactions, including dealers that are minority-, women-, disabled-, and veteran-owned.<sup>41</sup>

As of December 31, 2018, the Office of Finance had 64 approved broker-dealers, 16 of which were diverse broker-dealers, including seven minority-owned and five women-owned firms. In 2019, the Office of Finance added two additional diverse broker-dealers, one minority-owned and one disabled veteran-owned, bringing the total to 18. This represents an increase in the number of approved diverse broker-dealers from 10 in 2014 (see table 4). A total of 69 broker-dealers conducted at least one debt transaction with the Office of Finance in 2018. Ten percent of these broker-dealers were minority-owned and 7 percent were women-owned.

**Table 4: Number of Diverse Broker-Dealers Approved by the Office of Finance, 2014–May 2019**

Broker-dealer type	2014	2015	2016	2017	2018	May 2019 <sup>a</sup>
Minority-owned	6	6	6	7	7	8
Women-owned	3	4	4	5	5	5
Other diverse <sup>b</sup>	1	1	1	3	4	5
<b>Total diverse</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>15</b>	<b>16</b>	<b>18</b>
<b>Total approved</b>	<b>66</b>	<b>64</b>	<b>63</b>	<b>66</b>	<b>64</b>	<b>66</b>

Source: GAO analysis of Office of Finance data. | GAO-19-589

Note: The Office of Finance identifies and approves broker-dealers for the Federal Home Loan Banks' debt issuance transactions, including diverse broker-dealers.

<sup>a</sup>Data were as of May 13, 2019.

<sup>b</sup>Other diverse broker-dealers can include broker-dealers owned by individuals with disabilities and veterans.

<sup>41</sup>As previously noted, we focused on minority- and women-owned broker-dealer data for this report.

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### Debt Securities Issued by the Federal Home Loan Banks through the Office of Finance

The Federal Home Loan Banks (FHLBank) issue two main types of debt securities through their fiscal agent, the Office of Finance.

**Discount notes** are short-term debt securities that mature in 1 year or less and typically are sold in trade sizes of \$1 million to \$100 million, for a total daily issuance of \$10 billion to \$20 billion, according to the Office of Finance. Discount notes may be offered to the market daily or through regularly scheduled competitive auctions. In 2018, discount notes accounted for 94 percent of FHLBanks' total debt issuance based on net proceeds received.

**Bonds** are available in maturities ranging from three months to 30 years. Bonds are typically sold in trade sizes of \$10 million to \$100 million, for a total daily issuance of \$500 million to \$5 billion, according to the Office of Finance. Bonds can be negotiated individually or auctioned competitively through a network of broker-dealers approved by the Office of Finance. In 2018, bonds accounted for 6 percent of FHLBanks' total debt issuance based on net proceeds received.

Mandated Global bonds are a subset of FHLBank bonds with trade sizes that range from \$10 million to more than \$7 billion, and are offered to international investors. They are issued through a single broker-dealer or through a syndication process that involves multiple broker-dealers, including those that serve as lead and co-managers. A broker-dealer needs to be specifically approved for the program even if the broker-dealer already is approved for issuing discount notes and bonds.

Source: Office of Finance. | GAO-19-589

In 2018, FHLBanks issued about \$8 trillion in debt transactions. Of this total volume, approximately 3 percent of transactions were conducted with minority-owned broker-dealers and less than 1 percent with women-owned broker-dealers. Similarly, minority-owned broker-dealers received approximately 5 percent of the fees paid to broker-dealers overall on these transactions, and women-owned broker-dealers received approximately 0.5 percent. While the Office of Finance reports debt volume data and other data, such as number of transactions conducted by diverse broker-dealers, to FHFA, staff noted that they also use two other performance goals to measure their capital markets diversity efforts. These two goals are the utilization of diverse broker-dealers in debt issuance programs and the number of outreach engagements with diverse broker-dealers (such as marketing and investor meetings). According to Office of Finance staff, as of June 2019, diverse broker-dealers had the opportunity to participate in all FHLBank debt issuance programs. However, as discussed later, some practices that the Office of Finance implements to control risk may limit diverse broker-dealers from taking a more substantial role in certain types of transactions.

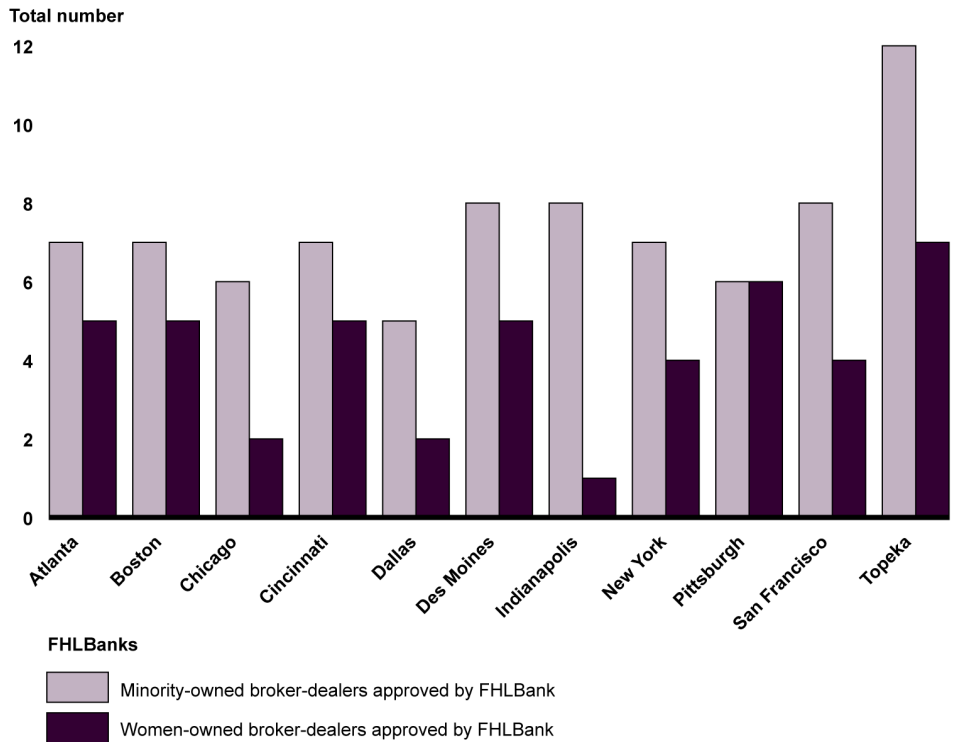
**Diverse broker-dealers in investment transactions.** FHLBanks make investments based on their investment needs and identify and approve broker-dealers for their investment needs according to their own qualification requirements. As shown in figure 11, the number of minority-owned broker-dealers approved by the FHLBanks ranged from five to 12, and the number of approved women-owned broker-dealers ranged from one to seven as of December 2018.<sup>42</sup>

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<sup>42</sup>Similar to the Office of Finance, FHLBanks consider minority-, women-, disabled-, and disabled-veteran-owned broker-dealers for use in their investment activities. As previously noted, we focused on minority- and women-owned broker-dealer data for this report.



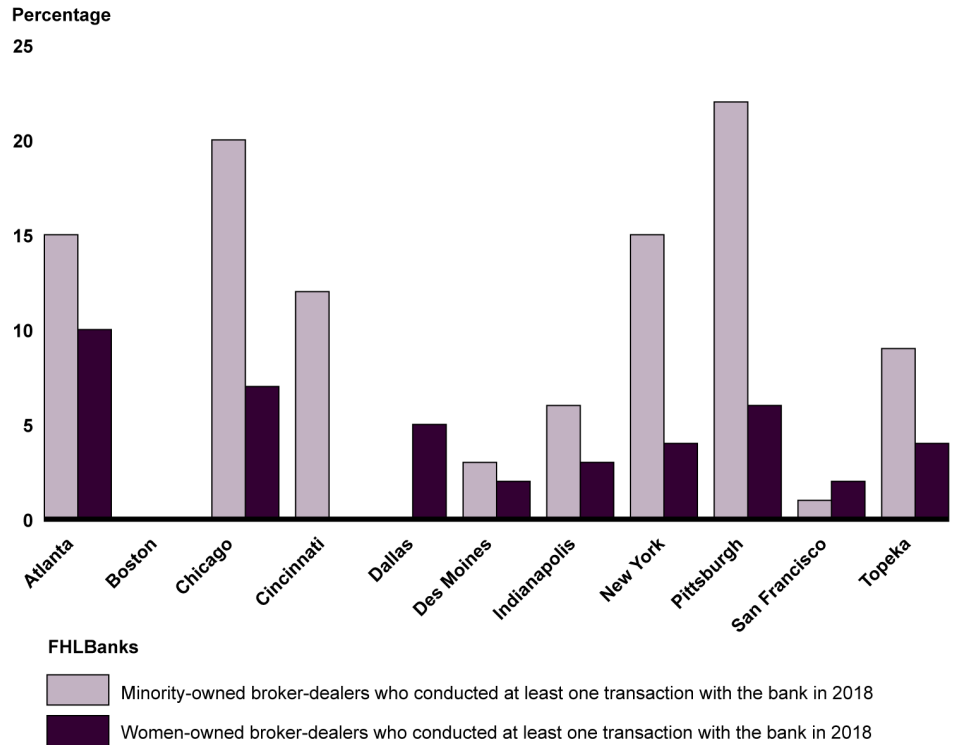
**Figure 11: Number of Minority- and Women-Owned Broker-Dealers Approved by Individual Federal Home Loan Banks (FHLBank) for Investment Activities, as of December 31, 2018**



Source: GAO analysis of Federal Home Loan Banks data. | GAO-19-589

Of the total number of broker-dealers that conducted at least one investment transaction with FHLBanks in 2018, the share of minority- or women-owned broker-dealers varied among banks (see fig. 12). Of the 10 banks that made investment transactions in 2018, shares for individual banks ranged from 0 percent to about 22 percent for minority-owned broker-dealers and from 0 percent to 10 percent for women-owned broker-dealers.

**Figure 12: Percentage of Broker-Dealers with at Least One Investment Transaction, which were Minority- or Women-Owned in 2018, by Federal Home Loan Bank**



Source: GAO analysis of Federal Home Loan Banks data. | GAO-19-589

Note: Federal Home Loan Banks (FHLBank) conduct investment transactions based on their investment needs. The FHLBank of Boston did not perform any investment transactions in 2018.

In 2018, FHLBanks conducted about \$12 trillion in investment transactions, less than 1 percent of which was conducted with minority-owned broker-dealers or with women-owned broker-dealers. Of the total number of transactions conducted by the banks, minority-owned dealers and women-owned dealers each accounted for less than 1 percent.

## FHLBanks Described Challenges That May Slow or Limit Their Use of Diverse Suppliers and Broker-Dealers

FHLBank staff reported some challenges that may slow or limit their use of diverse suppliers and broker-dealers, such as those owned by minorities, women, and individuals with a disability. For example, staff from seven banks said that the bank's needs for goods and services are small or can fluctuate from year to year. Staff from two banks added that this can make it difficult to consistently increase or maintain the use of diverse suppliers. For example, staff from one bank described a building

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construction project that increased the use of diverse suppliers during the year in which the construction took place, but had no effect in the subsequent year because construction had been completed.

In addition, staff from five banks said some bank procurement needs are fulfilled by continuing contracts with existing vendors. For example, staff from two banks said that some bank needs, such as existing information system support, are offered by continuing suppliers that may not be diverse suppliers.

Additionally, staff from five banks said that there are not always diverse suppliers that can meet the bank's needs. For instance, staff from one bank said it can be difficult to find diverse suppliers to fill some contracting needs that require specific skills or expertise, such as the vendors used to review technical risk-assessment models.

FHLBank staff also reported challenges that may slow or limit their use of diverse broker-dealers. For example, staff from six banks and the Office of Finance said that diverse broker-dealers often do not have the level of capital required by the banks to make the capital markets transactions the banks need.<sup>43</sup> Staff from five banks said this is because diverse broker-dealers generally are smaller firms. In addition, staff from seven banks said that diverse broker-dealers may be limited in the services and products they can offer the banks. For example, staff from one bank told us that some diverse broker-dealers have fewer financial resources, which limits them to basic transactions as opposed to more complex transactions.

Staff from six banks also said that their capital markets transactions are dependent on membership needs or market conditions for funding, which can lead to year-by-year fluctuations in transaction levels. Staff from four banks said that the fluctuations affect the bank's need for broker-dealers overall, and make it challenging for the bank to maintain or increase use of diverse broker-dealers. Office of Finance staff also noted this challenge, adding that many factors, such as underwriting capacity and experience, may affect a broker-dealer's ability and desire to participate in the FHLBanks' debt issuance programs. Staff further said that individual broker-dealers are responsible for identifying investors to be able to

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<sup>43</sup>For example, according to staff from three FHLBanks, diverse broker-dealers need to have a certain amount of capital to purchase securities to sell to the banks.

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participate in debt transactions; the Office of Finance cannot control whether a broker-dealer can identify an investor.

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### FHLBanks Generally Implemented Key Practices That Can Help Ensure They Consider Qualified Diverse Businesses

We previously identified key practices for increasing opportunities for minority- and women-owned asset managers.<sup>44</sup> We found these practices can be applied to diverse suppliers and broker-dealers and used by organizations, such as FHLBanks, to help ensure they consider qualified diverse suppliers and broker-dealers in their selection process.<sup>45</sup> Diverse suppliers and broker-dealers include businesses owned by minorities, women, and individuals with a disability. The key practices are

- **Demonstrate top leadership commitment:** Demonstrate commitment to increasing opportunities for diverse businesses.
- **Conduct outreach:** Conduct outreach to inform diverse businesses about opportunities and the selection processes.
- **Communicate priorities and expectations:** Explicitly communicate priorities and expectations about inclusive practices to staff and ensure those expectations are met.
- **Remove potential barriers:** Review policies and practices to remove barriers that limit the participation of diverse businesses.

### FHLBanks Implemented Key Practices for Supplier Diversity

We found that FHLBanks generally implemented the four key practices in their supplier management programs, based on our review of the FHLBanks' 2017 and 2018 annual OMWI reports and interviews with OMWI staff from all 11 banks, and with bank staff with responsibility for vendor management.

**Demonstrate top leadership commitment.** The FHLBanks demonstrated top leadership commitment to supplier diversity through strategic plans, goals, and reporting. All 11 FHLBanks include supplier diversity as a component of their diversity and inclusion strategic plans. In addition, the banks generally established quantitative or qualitative goals

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<sup>44</sup>See [GAO-17-726](#).

<sup>45</sup>To verify that the practices are also relevant to diverse suppliers and broker-dealers, we interviewed external stakeholders knowledgeable about working with diverse suppliers and broker-dealers. We also interviewed four diverse broker-dealers approved by the Office of Finance. We selected the external stakeholders based on their knowledge of diversity and referrals from those we interviewed.

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related to their supplier diversity programs; for example, the percentage of total expenditure with diverse suppliers. FHFA told us that they have been working with the banks to assess these goals and ensure they are outcome-based. Furthermore, the 11 banks track their progress in meeting diversity and inclusion objectives and goals. Each FHLBank's OMWI director reports to the bank's chief executive officer/president or the equivalent of the chief operating officer. The FHLBank boards also receive periodic updates on the bank's diversity and inclusion efforts.

**Conduct outreach.** FHLBanks use a variety of methods to reach potential diverse suppliers. All 11 banks work with local or national industry organizations, such as the National Minority Supplier Development Council and Women's Business Enterprise National Council, to identify potential suppliers. Nine banks described attending events hosted by these organizations, such as matchmaking sessions or business fairs, and at least two banks reported using their databases to search for diverse suppliers. Staff from seven banks said that they proactively meet with potential vendors to educate them on bank needs and processes. Staff from one bank said they have invited a number of diverse vendors to the bank to meet bank managers and discuss their goods and services. This has resulted in contract proposals from five different diverse vendors. Staff from five banks also described using advertising and social media to reach a broad base of potential diverse suppliers; for example, one bank described placing advertisements in publications that target diverse businesses.

**Communicate priorities and expectations.** FHLBanks communicated priorities and expectations on supplier diversity to bank staff through policies and training. All 11 banks have a written policy that outlines the requirements for bank staff to include a diverse supplier in their search whenever the need for a new contract is identified. In addition, all 11 banks conducted staff training on supplier diversity or on their vendor management policy.

**Remove potential barriers.** According to our interviews with external stakeholders knowledgeable about working with diverse suppliers, diverse businesses may face barriers as they seek to obtain contracts. FHLBanks took steps that could ameliorate these barriers.

- Supplier contracts are often made through existing relationships and networks. Diverse suppliers may not have access to these networks and therefore miss opportunities to apply for contracts. As previously mentioned, FHLBanks conducted targeted recruitment of diverse

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### Third- Party Certification of Supplier Diversity Status

According to the Federal Housing Finance Agency's (FHFA) 2010 Minority and Women Inclusion regulation, a firm qualifies as a minority- or women-owned business when it is more than 50 percent owned and controlled by one or more minority individuals or women and more than 50 percent of net profit or loss accrues to a member of those groups. Businesses can submit documentation to approved third-party certifiers to obtain a certification of their diversity status. Certifiers then review the documentation and sometimes conduct site visits to confirm the diversity status of the business.

Sources: GAO and FHFA. | GAO-19-589

suppliers. By actively seeking to build relationships with these suppliers, the FHLBanks have been working to address this barrier.

- The procurement process itself can be complicated and difficult to understand. Smaller diverse businesses may have limited staff and skill to navigate the process. Staff from seven banks have addressed this barrier by conducting one-on-one meetings with potential vendors to walk them through the bank's procurement processes.
- The process to certify as a diverse business with a third party can be confusing or costly, according to two external stakeholders we interviewed. The preambles to the 2010 Minority and Women Inclusion rule and its 2017 amendments state that while FHFA prefers reliance on certifications from qualified, independent third parties, FHFA also allows for reliance on self-certifications by the businesses. The FHLBanks each confirmed that they allow businesses to self-certify their diversity status.
- A small diverse supplier may not be able to fulfill a large contract requiring multiple services. An external stakeholder we interviewed told us that this barrier can be overcome when diverse suppliers join forces to fulfill multipart contracts. For example, a supplier that provides pens can join with a supplier that provides paper to fulfill a single office supplies contract. To do this, suppliers need advance notice of bank needs to create a business plan. Three banks told us that before meeting with potential suppliers, they work with various business departments in the bank to identify upcoming purchasing needs and share those with the suppliers.

All 11 banks have a representative on the systemwide OMWI Council Procurement Sub-Working Group, which meets monthly. The subgroup spent the majority of 2017 addressing the challenge of FHFA data reporting. An OMWI Council representative told us that the members use the subgroup as forum to discuss key issues. In addition, the representative said the subgroup plans to focus on improving its outreach efforts in 2019. Two banks reported that they hold internal meetings to discuss trends and potential barriers and make updates to their supplier diversity program.

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## FHLBanks Implemented Key Practices for Broker-Dealer Diversity

We found that the FHLBanks and the Office of Finance generally implemented the four key practices for their capital markets programs, based on our review of the FHLBanks' 2017 and 2018 annual OMWI reports and interviews with OMWI staff from all 11 banks, the Office of

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Finance, and with bank staff with responsibility for capital market activities.

**Demonstrate top leadership commitment.** Similar to the banks' supplier management programs, FHLBanks demonstrated top leadership commitment to capital markets diversity through strategic plans, goals, and reporting. All 11 FHLBanks and the Office of Finance include capital markets diversity as a component of their diversity and inclusion strategic plans. They also generally established quantitative or qualitative goals related to their capital markets diversity programs, such as the percentage of transactions conducted with diverse broker-dealers. The 11 banks and the Office of Finance track their progress in meeting diversity and inclusion objectives and goals. In addition, the OMWI director reports to the chief executive officer/president or the equivalent of the chief operating officer. The FHLBank and the Office of Finance boards also receive periodic updates on the bank's and the Office of Finance's diversity and inclusion efforts, respectively.

**Conduct outreach.** FHLBanks and the Office of Finance interacted with diverse broker-dealers through regular communication and face-to-face meetings. Staff from all 11 banks and the Office of Finance reported some form of regular communication with diverse broker-dealers to keep the broker-dealers informed on bank capital markets activities and needs. In addition, all 11 banks and the Office of Finance reported attending events to interact with diverse broker-dealers. For example, on behalf of the OMWI Council Capital Markets Subgroup, the FHLBank of New York hosts an annual Diverse Dealer Reception at which the banks and the Office of Finance can interact with current approved diverse broker-dealers and those in the pipeline for potential approval. At the 2017 reception, diverse broker-dealers were provided with contact information for all capital market staff in the FHLBank System and a brochure listing examples of ways diverse broker-dealers could engage with the system.

Staff from all 11 banks and the Office of Finance also told us they hold one-on-one meetings with diverse broker-dealers to explain bank processes and needs. In addition, Office of Finance staff told us they help diverse broker-dealers build relationships with investors by accompanying them to one-on-one meetings with investors to introduce FHLBank securities products.

**Communicate priorities and expectations.** FHLBanks communicate priorities and expectations on capital markets diversity to bank staff through policies and by sharing practices systemwide. Ten of the banks

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and the Office of Finance have a written policy or procedure related to the use of diverse broker-dealers, which outlines the importance of engagement with diverse broker-dealers or how bank staff should interact with them. The OMWI Council Capital Markets Subgroup also developed a list of aspirational practices for the 11 banks. These practices include many activities related to the four key practices we identified, such as engaging in regular communication and periodically examining capital market operations to identify potential obstacles to increasing business with diverse broker-dealers. Staff from one bank told us that having the practices codified in a document helps ensure consistent expectations across the system.

**Remove potential barriers.** FHLBanks and the Office of Finance made changes to their capital markets practices and certain features of their debt products to increase access for diverse broker-dealers. For example, the Office of Finance, with input from the OMWI Council Capital Markets Subgroup, reduced the capital requirements on some types of debt transactions to bring in more diverse broker-dealers. The Office of Finance also told us that in the case of a new type of debt product created in November 2018, they allow multiple broker-dealers to participate in various roles, including diverse broker-dealers.<sup>46</sup>

However, FHFA staff told us that although the FHLBanks and the Office of Finance made changes to debt and investment products offered to diverse dealers, the banks and the Office of Finance have not always used a systematic process to review and evaluate debt and investment policies and procedures for potential changes that may expand participation by diverse broker-dealers. In 2017 and 2018, FHFA asked the banks and the Office of Finance, respectively, to develop such a process to facilitate opportunities for diverse broker-dealers. FHFA determined that 10 banks had addressed this request. FHFA staff noted that they will review the remaining entities' progress in addressing this request in 2019 examinations.

In addition, each bank and the Office of Finance has a representative on the systemwide OMWI Council Capital Markets Subgroup. According to staff from four banks, the subgroup's monthly meetings provide them with

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<sup>46</sup>Staff from the Office of Finance said the new debt product is tied to the secured overnight financing rate, which is a broad measure of the cost of borrowing cash overnight that is collateralized by Treasury securities in the repurchase agreement—or “repo”—market.



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an opportunity to discuss barriers and practices. In 2018, the subgroup administered a survey to the approved diverse broker-dealers to solicit suggestions and feedback on their interactions with the banks. Bank staff told us the survey did not result in any program changes, but provided information on how they could communicate more effectively.

However, diverse broker-dealers still may face barriers in some areas, according to three diverse broker-dealers and two industry stakeholders, with whom we spoke. The Office of Finance has been taking steps to address these barriers where possible.

- Some practices that the Office of Finance implements to control risk can limit diverse broker-dealers from taking a more substantial role in transactions associated with certain debt products. For example, according to Office of Finance staff, only the top eight broker-dealers (ranked by the Office of Finance based on performance) can lead transactions for certain longer-term and larger-size debt products. Two diverse broker-dealers told us this requirement limits their ability to participate in these transactions. For example, one broker-dealer told us that because diverse broker-dealers generally are newer firms with less capacity relative to the top eight broker-dealers, it would be unlikely that they would ever be one of the top eight. Office of Finance staff told us these products accounted for less than 1 percent of the FHLBank's total debt issuance in 2018 based on net proceeds received.<sup>47</sup> According to the Office of Finance, they rely on these top eight broker-dealers because they can better cover any risk posed by the transactions. The Office of Finance allows diverse broker-dealers to serve as co-managers on these larger transactions, but diverse broker-dealers told us that acting as a co-manager did not noticeably increase the share of transactions they could execute or their own fee revenue.

Staff from the Office of Finance said the office does not implement quotas as a way to maintain or increase the use of diverse broker-dealers, but rather focuses on providing diverse broker-dealers with opportunities and on implementing outreach opportunities. According to these staff, the percentage of transactions conducted and fees received by diverse broker-dealers as a whole has increased over time.

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<sup>47</sup>These debt issuance activities are for the Mandated Global bonds.

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The Office of Finance told us they recently met with diverse broker-dealers about another risk-management practice that may limit the participation of diverse broker-dealers. According to Office of Finance staff, this practice requires broker-dealers to have at least \$100 million in capital to conduct certain complex debt transactions. According to external stakeholders, a higher capital requirement may limit the participation of diverse broker-dealers, who generally have less capital, in these transactions. Staff from the Office of Finance said that they have been evaluating whether it is appropriate to modify the requirement. Their evaluation is part of the office's continual process to evaluate debt issuance programs.

- Three diverse broker-dealers and one industry stakeholder we interviewed said that increased transparency by FHLBanks and the Office of Finance in information provided to broker-dealers could help diverse broker-dealers identify opportunities and better understand the banks' needs. For example, one diverse broker-dealer and one industry stakeholder said that access to information on the fees paid to broker-dealers on different types of capital markets transactions could help them take advantage of areas of greater opportunity. This information is reported by the Office of Finance and FHLBanks to FHFA, but generally is not released publicly. The preamble of FHFA's Minority and Women Inclusion rule notes that FHFA treats this information as confidential because it can affect the agency's oversight of the banks. However, FHFA does not prohibit FHLBanks and the Office of Finance from publishing their diversity information if they so choose. Office of Finance staff told us that they do not publish data on fees or broker-dealer transactions for certain debt product because they consider this proprietary and competitive information. They said publishing the data could increase the leverage of broker-dealers and also could lead to an adverse impact on investor participation and support.

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## FHFA Oversight of FHLBanks' Diversity and Inclusion Efforts Includes Conducting Examinations and Reviewing Bank Data

FHFA's oversight of FHLBanks includes annual examinations, development of instructions and templates to improve data quality, incorporation of bank data in oversight, and communication of agency expectations for diversity and inclusion efforts to the banks through various mechanisms.

**Began examining FHLBanks' diversity and inclusion efforts in 2017.** In 2017, FHFA started reviewing FHLBanks' diversity and inclusion efforts in its annual examinations of the banks.<sup>48</sup> FHFA developed a separate examination module (to add to its examination manual) in 2016 for reviewing the banks' diversity and inclusion efforts and the banks' oversight of these efforts. The areas that FHFA reviews include strategic planning and associated goals for diversity and inclusion, board oversight, organizational structure of diversity and inclusion programs, workforce, suppliers (which encompasses broker-dealers in the capital markets program), reporting structure and processes, and internal audit and compliance.

In the 2017 and 2018 examinations, FHFA found the banks generally took steps to promote and maintain diversity and inclusion in their workforce and use of diverse suppliers and broker-dealers. FHFA also identified some areas for improvement. Specifically, in the 2017 examinations, FHFA recommended that all 11 banks improve their reporting and program goals on workforce diversity and use of diverse suppliers and broker-dealers. For example, FHFA specifically found that six banks needed to improve performance measurement of their supplier diversity goals. In the 2018 examinations, FHFA recommended that seven banks enhance their succession planning to ensure that potential successors are assessed on how well they manage and implement diversity and inclusion. As previously discussed, FHFA also asked FHLBanks and the Office of Finance to develop a more systematic process to review and determine potential changes to their debt and investment policies that could expand participation by diverse broker-dealers.

Based on our review of FHFA's examination documentation, FHFA followed its processes to document, communicate, and resolve examination findings related to diversity and inclusion in its 2017 and

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<sup>48</sup>The 2017 diversity and inclusion examinations covered diversity and inclusion efforts as of the end of 2016. The 2018 examinations were the second in which FHFA reviewed diversity and inclusion efforts. As previously noted, FHFA also reviews other aspects of banks' operations, such as financial reporting, in its annual examinations.

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2018 examinations. For example, FHFA examiners prepared memorandums to document the assessment and findings of each individual bank's diversity and inclusion efforts and communicated findings to bank management and boards. Consistent with the examination manual, FHFA followed up on 2017 examination findings and banks' remediation actions during the 2018 examinations. As of March 2019, FHFA determined that 10 banks satisfactorily remediated findings from the 2017 examination related to goals and reporting issues, among other things. For the remaining bank, management has not completed all remediation steps to address FHFA's examination findings, according to FHFA staff. FHFA staff added that they will review the bank's actions again in the 2019 examination and assess the banks' progress in addressing the 2018 examination findings.

According to FHFA staff, they plan to make some changes to the diversity and inclusion examination module. For example, in the module FHFA plans to more explicitly separate the information on the review of diversity efforts related to use of diverse broker-dealers from use of diverse suppliers (they are currently under one examination component).

**Developed instructions and templates to improve data quality.** To enhance the quality of the data and information submitted by FHLBanks on their workforce diversity and use of diverse suppliers and broker-dealers, FHFA worked with FHLBanks and developed instructions and templates to help FHLBanks submit more consistent data on a quarterly basis. During 2018, FHFA requested that banks submit quarterly diversity data on their workforce and the use of diverse suppliers and broker-dealers. FHFA also developed a data reporting manual that includes a data dictionary, and templates for the quarterly and annual data and for the annual report to help FHLBanks more consistently report diversity data for their workforces and use of diverse suppliers and broker-dealers.

FHFA staff told us that they reviewed the banks' 2018 data to identify any discrepancies, and they worked with the banks to clarify data definitions and correct the discrepancies. For example, some banks had used an incorrect definition to account for their diverse supplier expenditures. Because 2018 was the first year in which the banks used the new templates, FHFA staff said they had expected some discrepancies in the data as the banks became familiar with the data definitions. Staff said FHFA plans to continue to work with the banks to help them achieve a common understanding of the data definitions.

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**Incorporated bank data in oversight.** According to FHFA staff, in 2018 they began to use the banks' quarterly data for ongoing monitoring of the banks' diversity and inclusion efforts in workforce, procurement, and capital markets. For example, the FHFA OMWI office assesses each bank's diversity performance in these three areas using the quarterly data, and has been considering developing benchmarks. FHFA staff said the quarterly data provide more detailed information on the banks' use of diverse businesses; for example, the types of goods or services for which the banks contract with diverse businesses. FHFA staff noted that the additional data not only inform FHFA's oversight but also can help the banks' internal reporting on diversity and inclusion efforts.

Additionally, FHFA plans to review the banks' data reporting systems as part of its annual examinations to help ensure banks have the appropriate controls for data reporting. FHFA staff said that the agency expects the banks to establish the appropriate data system to ensure the quality of data reported to FHFA and for internal reporting.

**Communicated with FHLBanks, including on data templates and expectations.** FHFA provided clarification on the roles and duties of the banks' OMWI officers and the scope of diversity regulations. FHFA collected the banks' feedback and responded to questions on the new quarterly data reporting and the new data instructions and templates. Subsequently, FHFA modified the data templates in 2019 to allow the banks to more efficiently report their diversity data on a quarterly and annual basis. For example, FHFA consolidated data fields common to quarterly and annual reporting, among other things. Additionally, FHFA provided responses to the banks on their questions on the data and annual report templates when the templates were first introduced in 2018 and revised in 2019. FHFA staff said the annual report template helped clarify FHFA's expectation on annual report content.

In addition, FHFA staff noted that since 2015, FHFA's OMWI director has met with the bank presidents and board of directors of most of the FHLBanks, and began in 2018 to have at least one visit for each bank every other year. The FHFA OMWI director also generally attends the semi-annual conferences of the banks' OMWI officers, during which she has the opportunity to meet with the banks' presidents individually. During these meetings, the OMWI director or staff discussed diversity issues such as strategic planning, results of the banks' annual reports, and examinations.

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## Agency Comments

We provided a draft of this report to FHFA, each of the 11 FHLBanks, and the Office of Finance for review and comment. FHFA, six FHLBanks, and the Office of Finance provided technical comments, which we incorporated as appropriate. The other five FHLBanks did not have any comments.

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 the appropriate congressional committees, the Director of FHFA, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or [ortiza@gao.gov](mailto:ortiza@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 I.



Anna Maria Ortiz  
Acting Director, Financial Markets and Community Investment

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# Appendix I: GAO Contact and Staff Acknowledgments

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## GAO Contact

Anna Maria Ortiz, (202) 512-8678, [ortiza@gao.gov](mailto:ortiza@gao.gov).

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## Staff Acknowledgments

In addition to the individual named above, Kay Kuhlman (Assistant Director), Anna Chung (Analyst in Charge), Meghana Acharya, Laurie Chin, Kaitlan Doying, Jill Lacey, Moon Parks, Barbara Roesmann, Jessica Sandler, and Jena Sinkfield made key contributions to this report.

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