

Federal Housing Finance Agency  
Office of Inspector General



# **DBR Adapted the Scope of Its Federal Home Loan Bank Supervisory Activities in 2023 in Response to Market Disruptions**

Evaluation Report • EVL-2023-004 • September 21, 2023



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## Executive Summary

Within the Federal Housing Finance Agency (FHFA), the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervising the Federal Home Loan Bank (FHLBank) System to ensure the safe and sound operation of the FHLBanks. DBR's examination and supervisory activities include an annual onsite examination, periodic visitations, special reviews, and offsite monitoring. Thorough planning is key to an efficient and effective examination.

We conducted this evaluation to assess DBR's risk assessment and supervisory planning activities, with a focus on its identification of high-risk areas that warrant supervisory scrutiny. Specifically, we assessed the extent to which DBR adapted its 2023 examination planning for a sample of six FHLBanks in response to an abrupt increase in demand for FHLBank advances and the collapse of several member banks. Advances consist of cash loans that must be fully secured with eligible collateral, for example, mortgages or mortgage-related assets.

In March 2023, two FHLBank member banks failed and one voluntarily liquidated within days of each other after experiencing significant deposit outflows and financial difficulties. When faced with the urgent need for liquidity, these institutions obtained funding from the FHLBanks in the form of advances. The collapses drew scrutiny from DBR into the FHLBanks' member credit risk management practices and, more broadly, into the system's role in lending to troubled members.

We found that DBR examiners adjusted their supervisory activities and examination planning in response to the heightened risk environment. DBR executives shifted resources from other examinations in order to review credit practices at the FHLBanks most directly affected by the market disruption and member collapses. DBR also plans to review credit risk management across the FHLBank System in response to concerns about systemic weaknesses.

We also reviewed examiners' compliance with planning workpaper standards and found that they generally complied with DBR's procedural and workpaper template requirements. In certain instances, examiners did not describe primary worksteps in their pre-examination analysis memoranda, as required by DBR procedures. However, we found those worksteps in other workpapers, when available. We make no recommendations in this report.

This report was prepared by Jon Anders, Lead Program Analyst; Adrienne Freeman, Attorney Advisor; and Jason Ramserran, Program Analyst. We



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appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, [www.fhfaog.gov](http://www.fhfaog.gov), and [www.oversight.gov](http://www.oversight.gov).

/s/

Kyle D. Roberts  
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## ABBREVIATIONS .....

DBR	Division of Federal Home Loan Bank Regulation
EIC	Examiner-in-Charge
FHFA	Federal Housing Finance Agency or Agency
FHLBank	Federal Home Loan Bank
OPB	Operating Procedure Bulletin

## BACKGROUND .....

### FHFA Regulates and Supervises the FHLBanks

FHFA is responsible for ensuring the FHLBank System operates in a safe and sound manner, remains adequately capitalized and able to raise funds in the capital markets, and achieves its statutory mission.<sup>1</sup> Within FHFA, DBR is responsible for supervising the FHLBank System to ensure the safe and sound operation of the FHLBanks. DBR's examination and supervisory activities include annual examinations, periodic visitations, special reviews, and offsite monitoring.

DBR examines each of the FHLBanks on an annual basis. Examinations last approximately six weeks, and DBR typically conducts three of them each quarter. According to DBR, the annual examination includes, among other things, an assessment of the credit, market, and operational risks in the FHLBank's operations and an evaluation of the FHLBank's earnings, liquidity, capital adequacy, and corporate governance. FHFA issues an annual report of examination for each FHLBank that contains examination conclusions and composite and component ratings. The Examiner-in-Charge (EIC) for each FHLBank has primary responsibility for planning and executing the annual examination. DBR also has three Associate Directors who each oversee an examination team. DBR identifies three phases in its annual examination cycle: planning, execution/documentation, and ongoing supervision.<sup>2</sup>

### DBR Guidance Describes Planning Activities and Provides Requirements for Planning Documentation

The *FHFA Examination Manual* and DBR Operating Procedure Bulletins (OPBs) provide guidance to DBR teams performing examinations within the FHLBank System. Part I of the *FHFA Examination Manual* describes the examination program, sets forth examiner processes, and describes examiner work products.<sup>3</sup> Part II of the *FHFA Examination Manual* includes examination modules that provide instruction and workprograms applicable to each FHLBank's risk categories and line of business. The Federal Home Loan Bank Examination Workpaper Standards OPB (Workpaper Standards OPB) establishes expectations for the standards and quality of examination workpapers. The standards provide broad principles to promote consistency and ensure reliable quality exam documentation. DBR's Workprogram

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<sup>1</sup> For more information about the FHLBank System, see FHFA OIG, [An Overview of the Federal Home Loan Bank System](#) (WPR-2023-002, Mar. 31, 2023).

<sup>2</sup> This evaluation focuses on the planning phase of the examination cycle.

<sup>3</sup> The *FHFA Examination Manual* is available online at: [Examiner Resources \(fhfa.gov\)](#) (accessed Aug. 8, 2023).

Minimum Frequency Guidelines OPB provides minimum frequency guidance for each workprogram that DBR supervision staff may include in the examination scope. The frequencies vary between annual and quadrennial examination based on “the volume or complexity of an activity or function, as well as the activity or function’s relevance in developing examination conclusions and assigning examination ratings.”<sup>4</sup>

## **DBR Prepares Examination Planning Documents for Each FHLBank**

### ***Planning for FHLBank Examinations Occurs on an Annual Cycle***

Initial planning begins soon after the completion of an annual examination with the EIC’s development of the supervisory strategy, which identifies the key risk areas and other areas of focus for the next year. According to the *FHFA Examination Manual*, the EIC develops the supervisory strategy within 30 days after issuing the report of examination and updates the strategy during the year as needed. For example, the EIC may revise the strategy based on significant changes in an FHLBank’s financial condition, results of offsite monitoring, or other factors. Through the supervisory strategy, conclusions and findings of the prior examination inform the next examination. It should demonstrate that the supervisory concerns noted in the previous examination are being or will be addressed.

### ***Thorough Pre-examination Analysis and a Well-Defined Examination Scope Are Key to Executing an Efficient and Effective Examination, According to Past DBR Guidance***

Prior to the next onsite examination, the EIC and examination team prepare pre-examination analysis memoranda and a scope memorandum that define the scope of the overall examination and each workprogram. The pre-examination analysis memoranda describe how examiners will evaluate the quality of the FHLBank’s policies, procedures, and internal controls related to the workprograms to be examined. They should also define the primary worksteps that will support the objective of the reviewed area, according to the Workpapers Standards OPB.<sup>5</sup> DBR guidance states that examiners prepare the memoranda approximately two weeks before the examination’s start date.

After reviewing all completed pre-examination analysis memoranda, the EIC documents the overall examination plan in a scope memorandum approximately one week before the examination’s start date. Under the Workpaper Standards OPB, these memoranda should include summary discussion of the scope of the examination and detailed discussion of how

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<sup>4</sup> FHFA, *Workprogram Minimum Frequency Guidelines OPB*, at 2 (2012-DBR-OPB-03, updated Oct. 1, 2020).

<sup>5</sup> The Workpaper Standards OPB states that examiners do not need to complete all worksteps in the *FHFA Examination Manual*’s workprograms. However, they should determine the specific worksteps and procedures to apply based on the scope and objectives of the examination work.



the proposed scope, grouped by CAMELSO examination components,<sup>6</sup> will address areas of supervisory concerns identified in the pre-examination analysis memoranda. Examination plans also incorporate division-wide supervisory priorities that, according to the Deputy Director of DBR, merit review across the system and might not otherwise be covered by examiners.

## **FHFA States that DBR’s Examination Activities “Are Risk-Based and Are Tailored to Each Institution’s Risk Profile”**

### ***Examiners Identify Risks Through Annual Examinations and Their Ongoing Supervision of the FHLBanks***

According to the *FHFA Examination Manual*, DBR examiners should assess the level of risk and quality of risk management for each area under examination. Examiners’ conclusions, and supervisory concerns and deficiencies identified during the examination, factor into the supervisory strategy for the next examination. Examiners also learn of emerging issues through ongoing supervision, which typically consists of bi-weekly and quarterly calls with FHLBank management, monitoring activities through periodic reporting, and mid-year visitations.

### ***Offsite Monitoring Groups Help to Identify Emerging Risks and Provide Input on the Scope of FHLBank Examinations***

In addition to examiners, DBR employs analysts, modelers, and other specialists who regularly monitor, among other areas, the FHLBanks’ capital markets activities, credit and market risk, and financial condition and performance. These specialists work in several offices that we refer to collectively as the offsite monitoring groups. The Deputy Director of DBR told us he expects DBR’s offsite monitoring groups to provide an early warning of emerging risks. Offsite monitoring group representatives and examination managers told us that they communicate directly on such risks as they appear. In addition, DBR generates periodic offsite monitoring reports to inform supervisory staff of current and developing risk trends. DBR staff also can access data dashboards, which provide a snapshot of events, allow for data filtering, and can send alerts to examiners. DBR’s Deputy Director explained to us that offsite monitoring provides a broad view of risks that can be missed by examination teams focused primarily on their institution.

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<sup>6</sup> FHFA conducts safety and soundness examinations of the FHLBanks based on seven component areas, known collectively as CAMELSO: Capital, Asset quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk. The evaluation of these components informs FHFA’s composite rating for the FHLBank. See FHFA, Advisory Bulletin 2012-03, [FHFA Examination Rating System](#) (Dec. 19, 2012).

According to DBR’s examination guidance, the EIC should consider offsite monitoring and analysis reports when determining the examination priorities for a particular FHLBank. In preparing for the annual examination, the EIC, Associate Director, or both are expected to meet with key DBR stakeholders, including offsite monitoring groups, at least four weeks in advance of an examination start date to identify any matters of supervisory importance that may be unique to the FHLBank and to ensure appropriate examination staffing. DBR told us that offsite monitoring groups meet with exam teams during individual FHLBank examination planning meetings to discuss the supervisory strategy and scope of the examination. In addition to meeting with exam teams, offsite monitoring personnel provide subject matter expertise to examiners and may participate directly in examinations, including leading component sections related to their area of expertise.

## **FACTS AND ANALYSIS .....**

We conducted this evaluation to assess DBR’s risk assessment and supervisory planning activities, with a focus on its identification of high-risk areas that warrant supervisory scrutiny. Specifically, we assessed the extent to which DBR adapted its 2023 examination planning for a sample of six FHLBanks in response to an abrupt increase in demand for FHLBank advances and the collapse of several member banks.<sup>7</sup>

### **Dramatic Changes in the Macroeconomic Environment During the COVID-19 Pandemic Impacted FHLBank System Members’ Demand for Advances and Contributed to the Collapse of Several Member Institutions**

#### ***Demand for FHLBank Advances Shifted Significantly Over the Past Three Years***

The FHLBanks primarily fulfill their mission by making secured loans, known as advances, to their member financial institutions and housing associates. Advances consist of cash loans that must be fully secured with eligible collateral, for example, mortgages or mortgage-related assets.<sup>8</sup>

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<sup>7</sup> This evaluation did not assess the sufficiency of DBR’s execution of examination activities.

<sup>8</sup> Advances typically receive protection under the FHLBanks’ “super lien” authority. The super lien provision of the Federal Home Loan Bank Act may give an FHLBank a higher-priority security interest in collateral than would otherwise be the case. Despite these mitigating factors, credit risk stemming from advances must still be managed. The FHLBanks note in their combined financial report for 2022 that “[d]efaults by borrowers with significant obligations to the FHLBanks could result in significant financial losses, which would adversely affect the FHLBanks’ results of operations and financial condition.” See Federal Home Loan Banks, [Combined Financial Report for the Year Ended December 31, 2022](#), at 107 (Mar. 24, 2023).

After rising 26 percent in the first quarter of 2020, advances decreased 56 percent between first quarter 2020 and year-end 2021, reaching low levels not seen in the past 20 years. According to the FHLBanks, this decline was due to “elevated levels of liquidity in the financial markets and elevated deposit levels” at member institutions. The 2021 decline in advances was accompanied by a shift in the composition of the members holding FHLBank advances. According to DBR, between March 2020 and June 2021, advances to commercial banks declined 73 percent. As a result, insurance companies held a disproportionate amount of advances compared to commercial banks. In a division-wide planning document, DBR examiners expressed concern that the “changes in the advance portfolios and membership profiles of the FHLBanks may create incentives for FHLBanks to increase their risk tolerances to support earnings and ultimately, franchise viability.”

During 2022, advances rebounded and by year’s end they reached \$819 billion, more than double the balance at year-end 2021. Composition of advance balances shifted back to commercial banks holding the majority of FHLBank advances. The FHLBanks reported that the significant increase was “driven by depository member demand for liquidity due to such factors as declining deposit balances, loan growth, and the effects of higher interest rates.”<sup>9</sup>

### ***The Financial System Experienced Market Disruption in March 2023 Surrounding the Collapse of Several FHLBank Member Institutions***

In March 2023, two FHLBank member banks failed and one voluntarily liquidated within days of each other after experiencing significant deposit outflows and financial difficulties. The Government Accountability Office reported that two of these banks had relied on high levels of less stable, unsecure deposits to support their rapid growth, and federal regulators found that ineffective risk management was the root cause of their collapse.<sup>10</sup> When faced with the urgent need for liquidity, these institutions obtained funding from the FHLBanks. The collapse of these members led to scrutiny from DBR into the FHLBanks’ member credit risk management practices and, more broadly, into the system’s role in lending to troubled members.

### **We Reviewed Planning Documentation Related to Credit Risk Management for a Sample of Six FHLBanks**

Our review focused on whether examiners adjusted 2023 examination plans to examine the FHLBanks’ member credit risk management in the high-demand environment. We selected a

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<sup>9</sup> Between March 2022 and July 2023, the Federal Reserve raised its benchmark interest rate by 5.25 percentage points.

<sup>10</sup> See Government Accountability Office, [Bank Regulation: Preliminary Review of Agency Actions Related to March 2023 Bank Failures](#) (GAO-23-106736, Apr. 28, 2023).

sample of six FHLBanks where examination work commenced in the first half of 2023.<sup>11</sup> For those six FHLBanks, we obtained and reviewed DBR’s examination planning workpapers related to credit risk management from the 2022 examination cycle and the 2023 examination cycle through July 31, 2023. We reviewed the workpapers for discussion of concerns related to advance volumes and any indication of emerging counterparty risk related to rising interest rates and exposure to cryptocurrency firms.<sup>12</sup> We also reviewed them for compliance with relevant DBR procedures. We describe the results of our review below.

## **Examiners Identified Member Credit Risk as a Cause for Concern at the FHLBanks Most Affected by the Market Disruption**

### ***DBR Officials Had Concerns about System-Wide Member Credit Risk Management Deficiencies***

As the market disruption unfolded in mid-March 2023, DBR increased its monitoring of the FHLBank System. The Deputy Director told us that EICs held daily meetings with the FHLBanks to monitor their financial situation, and they requested daily reports from the FHLBanks to allow for rapid reporting to DBR executives. DBR’s Office of Capital Markets and Financial Analysis began issuing daily debt issuance and advances reports to division executives.

The Deputy Director informed us that examiners had suspicions across the system about the FHLBanks’ evaluation of their members’ interest rate risk and liquidity risk management. He stressed the need to review the FHLBanks’ credit risk management in executive meetings and DBR took a bank-by-bank approach to reviewing the topic. The division reallocated resources to the exam teams for the FHLBanks most affected by the disruption and undertook deep dives into credit risk management at those institutions.

### ***DBR Conducted a Special Credit Review of an FHLBank in Advance of Its Annual Examination***

A large member bank of one FHLBank experienced unprecedented increases in its asset growth due to its involvement in the cryptocurrency market. In late 2022, the member bank suffered wide-spread and continuous deposit withdrawals. Despite the balance sheet contraction, the FHLBank did not timely halt the member bank’s borrowing or properly adjust

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<sup>11</sup> This sample included the five FHLBanks with annual examinations that commenced in the first half of 2023 and a sixth, where examiners performed a special credit review in advance of the FHLBank’s July annual examination.

<sup>12</sup> We looked for examiner discussion of members’ cryptocurrency sector exposure in planning documents because a member’s concentrated business with that sector and high share of uninsured deposits contributed to its collapse.

the member bank's credit quality rating to reflect the increased credit risk. DBR documents indicate that these issues prompted DBR officials to meet with the FHLBank's management in February 2023, to stress the Agency's discomfort with the member bank's financial condition and the FHLBank's risk management of the member bank. The EIC for the FHLBank updated the 2023 Supervisory Strategy to reflect the market disruption and the weakness of the member bank.

In March 2023, the collapse of a different member bank of the FHLBank, and financial distress at other member banks, precipitated the DBR Deputy Director's decision to mandate a special credit review at the FHLBank prior to its onsite annual examination. This was an unusual step that required DBR to redirect resources from other examinations to conduct the review and deploy a larger review team during their mid-year visitation in April 2023.

The scope of the mid-year visitation was revised to focus solely on credit risk management and "advances practices." DBR completed extra activities, beyond what would occur during a normal mid-year visitation, in response to the ongoing risks. The mid-year visitation included an advance document request for information such as monitoring reports and credit reviews of certain member banks, and DBR conducted individual credit risk assessments of certain distressed member banks.

#### ***Another FHLBank Examination Team Redirected Resources to the Review of Member Credit Risk in Response to the Market Disruption***

In response to the collapse of a member bank, examination leadership revised the 2023 examination scope for another FHLBank to include a review of credit risk management that would be performed out of cycle under DBR's workprogram minimum frequency guidelines. The collapsed member had ties to the cryptocurrency industry and suffered severe deposit withdrawals in the March market disruption. In internal documents from late 2022 and early 2023, examiners considered the cryptocurrency ties to be a lower-level concern related primarily to reputational risk and they saw little actual concern with the member's banking business.

Examiners told us they determined, as the March events unfolded, that the FHLBank's credit rating framework did not incorporate certain risk factors for highly rated members like the collapsed institution. They prioritized member credit risk management among the main objectives of the FHLBank's annual examination that began in April 2023. The EIC and the Associate Director assigned the credit risk management workprogram to an experienced examiner (the EIC of another FHLBank) and they eliminated several workprograms from the examination plan to accommodate the shift in resources. The proposed examination of credit risk management contained four objectives on the FHLBank's practices related to the collapsed member. These included evaluating the FHLBank's lending policies and its

monitoring of emerging member credit risks related to cryptocurrency exposure, deposit composition, and interest rate risk.

## **DBR Plans to Review Credit Risk Management Across the FHLBank System**

Each of the six examinations that were planned during or after the March market disruption included the credit risk management workprogram. Five of the six FHLBank exams included the workprogram for the second year in a row, which was out of cycle under DBR's workprogram minimum frequency guidelines. The Deputy Director told us that the Associate Directors and EICs reached this decision independently, but he also provided directives to review this topic during meetings with senior staff as well as his meetings with the EICs. He expected that the fourth quarter examinations would include this workprogram as well and he told us that member credit risk likely would be made a system-wide supervisory priority for 2024.

DBR also plans to address the FHLBanks' credit risk management by establishing new supervisory guidance on member credit assessments and FHLBank extensions of credit. The Deputy Director told us that DBR is preparing a supervisory letter to all the FHLBanks and an advisory bulletin on member credit risk. That work is being informed by examiners' views of the FHLBanks' failure to meet existing expectations.

## **DBR Generally Complied with Its Guidance for Examination Planning Workpapers for the Sample that We Reviewed**

### ***Examiners Covered Known High-Risk Areas in 2023 Planning Documents***

We reviewed the sample of planning workpapers for evidence that the primary findings related to asset quality from the 2022 examinations flowed through to the planning for the 2023 examination. The inclusion of those findings in planning documents would demonstrate that examiners planned to cover high risks identified during the prior examination in the upcoming examination. We selected a sample of primary findings from the 2022 Reports of Examination and reviewed for evidence of each finding being incorporated in either the pre-examination analysis memoranda or in the scope memorandum for that FHLBank in the 2023 examination cycle. Based on our sample, we found that DBR either resolved and closed the primary finding or incorporated the 2022 primary finding into the 2023 planning documents.

### ***Examiners Generally Followed DBR's Workpaper Standards***

We also tested the conformance of the sampled 2023 workpapers with DBR's workpaper standards procedures and its internal templates. Our team reviewed the supervisory strategies, pre-examination analysis memoranda for the advances and collateral and credit risk management workprograms, and scoping memoranda for the six sampled 2023 examinations.

We assessed these documents against the requirements of DBR’s Workpaper Standards OPB and internal templates that related most to identifying and documenting areas of risk and describing examination activities that address those risk areas.<sup>13</sup> We found that examiners generally complied with the intent of DBR’s workpaper standards.

### ***Certain Pre-examination Analysis Memoranda Lacked Required Worksteps***

An exception to DBR’s general compliance with its guidance on examination planning workpapers related to the omission of primary worksteps in pre-examination analysis memoranda.<sup>14</sup> DBR’s Workpaper Standards OPB requires examiners to define the primary worksteps that will support the objective of the reviewed area in pre-examination analysis memoranda. Per the OPB, the purpose of identifying the worksteps is to ensure an agreed-upon approach by all stakeholders, including the EIC, Associate Director, and other exam staff.<sup>15</sup> In contrast, DBR’s templates for pre-examination analysis memoranda do not include a section for primary worksteps. We found that three examination teams did not include such worksteps in their pre-examination analysis memoranda for the advances and collateral and credit risk management workprograms. We observed this omission in half of the examinations in our sample. For two of the examinations, we observed that examiners captured the worksteps in the workprograms they used to conduct the examination. The third examination was ongoing at the time of drafting and the completed workprograms were not yet available.

## **The Deputy Director Is Considering Changing DBR’s Processes for Supervisory Planning and Examination**

The Deputy Director informed us that DBR’s response to the market disruption had revealed constraints in the division’s current approach to staffing examinations and he is considering moving the division to a model that allows for more flexibility in staffing examinations. The Deputy Director said that it was difficult to reassign examiners and analysts to the special credit review because it threw off the timing of other ongoing examination work.

The potential change to DBR’s supervision model would affect DBR’s examination planning cycle. The Deputy Director told us that EICs would need to plan examination activities for the full year, instead of for a roughly month-long annual examination, and they will need to

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<sup>13</sup> The Workpaper Standards OPB does not contain guidance on the preparation of supervisory strategies. For those documents, we reviewed the applicable guidance found in the *FHFA Examination Manual*.

<sup>14</sup> In another exception, we observed that one of the scope memoranda did not include the rationale, or references to other documents that describe the rationale, for the decision to scope out nine workprograms, as required by the Workpaper Standards OPB.

<sup>15</sup> Despite the OPB’s statement, DBR does not require documentation of the supervisory review and approval of pre-examination analysis memoranda, including by the Associate Director.

share resources. The Deputy Director also plans for the division to create a risk taxonomy, a catalog of risks and processes of supervisory interest and associated examination frequency recommendations, that would assist with longer term planning.

## CONCLUSIONS .....

Based on our sample, we found that DBR planning practices generally incorporated previously identified areas of high risk for further review. We also found that examiners generally complied with the intent of DBR’s workpaper standards, with the exceptions mainly related to the omission of primary worksteps from several pre-examination analysis memoranda. For that issue, harmonization of DBR’s Workpaper Standards OPB and templates for pre-examination analysis memoranda would help to ensure the consistency of practice across the division.

We also found that DBR examiners adjusted their examination planning in response to the heightened risk environment resulting from the March 2023 market disruption. DBR identified supervisory concerns with respect to the FHLBanks’ member credit management practices. DBR executives shifted resources in order to examine lending and credit risk management practices at the FHLBanks most affected by the market disruption and member collapses. They also plan to review credit risk management across the FHLBank System in response to concerns about systemic weaknesses. Most of this work would be performed outside of DBR’s traditional examination schedule for the credit risk management workprogram. The constraints of DBR’s current approach to staffing annual examinations has prompted the Deputy Director to consider a different supervision model for future examination cycles.



## OBJECTIVE, SCOPE, AND METHODOLOGY .....

We conducted this evaluation to assess DBR’s risk assessment and supervisory planning activities, with a focus on its identification of high-risk areas that warrant supervisory scrutiny. The review period for this evaluation was DBR examination cycles for 2022 and 2023, through July 2023 (review period).

To meet this objective, we reviewed applicable FHFA and DBR guidance and standards in effect during our review period and prior OIG reports and corresponding workpapers germane to DBR’s examination program. We obtained and reviewed for a sample of six examinations’ planning workpapers and monitoring reports completed during the review period. We also reviewed the quality control reviews for the FHLBanks in our sample completed during the review period.

As part of this evaluation, we conducted interviews of DBR’s Deputy Director, as well as the Associate Directors and Examiners-in-Charge for the two FHLBanks most affected by the market disruption. We also interviewed Associate Directors and managers from the Office of Capital Markets and Financial Analysis and the Office of Risk Analysis & Modeling.

We selected a sample of six FHLBanks where examination work commenced in the first half of 2023.<sup>16</sup> For those six FHLBanks, we obtained and reviewed DBR’s examination planning workpapers related to credit risk management from the 2022 examination cycle and the 2023 examination cycle through July 31, 2023. To help assess how DBR adapted its planning to respond to the recent increase in demand for FHLBank advances and the collapse of several member banks, we reviewed the workpapers for discussion of concerns related to advance volumes and any indication of emerging counterparty risk.

We also reviewed the sample of planning workpapers for evidence that the primary findings related to asset quality from the 2022 examinations flowed through to the planning for the 2023 examination. We selected a sample of primary findings from the 2022 Reports of Examination and reviewed for evidence that examiners incorporated the findings in either the pre-examination analysis memoranda or in the scope memorandum for that FHLBank in the 2023 examination cycle.

In addition, we reviewed the supervisory strategies, pre-examination analysis memoranda for the advances and collateral and credit risk management workprograms, and scoping memoranda for the six sampled 2023 examinations. We assessed these documents against the

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<sup>16</sup> This sample included the five FHLBanks with annual examinations that commenced in the first half of 2023 and a sixth, where examiners performed a special credit review in advance of the FHLBank’s July annual examination.

requirements of DBR’s Workpaper Standards OPB and internal templates that related most to identifying and documenting areas of risk and describing examination activities that address those risk areas.

We provided a draft of this report to FHFA for its review and comment.

This evaluation was conducted between April 2023 and August 2023 under the authority of the Inspector General Act and in accordance with the Council of the Inspectors General on Integrity and Efficiency’s *Quality Standards for Inspection and Evaluation* (December 2020).

## ADDITIONAL INFORMATION AND COPIES.....

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