Federal Housing Finance Agency
Office of Inspector General

DBR's Oversight Was Sufficient to Ensure That FHLBanks Managed Mortgage Servicer Risks But Examiners Did Not Follow Steps Outlined in Its 2023 Supervisory Priorities

Audit Report • AUD-2025-003 • March 28, 2025

EXECUTIVE SUMMARY

PURPOSE

A Federal Home Loan Bank (FHLBank) can engage with entities to service mortgages it has purchased, which exposes the FHLBank to mortgage servicer risks – the risk that the servicer will not be able to meet its financial obligations to the FHLBanks or will not service mortgages in accordance with laws, regulations, and sound practices. The Federal Housing Finance Agency's (FHFA) Division of Federal Home Loan Bank Regulation (DBR) regulates and supervises the Federal Home Loan Bank System (FHLBank System).

As part of our ongoing oversight of FHFA's supervision of the FHLBank System, we performed an audit to assess whether DBR's oversight was sufficient to ensure the management of mortgage servicer risks.

RESULTS

We determined that DBR provided sufficient oversight of the FHLBanks' management of mortgage servicer risks. Specifically, we found that DBR's supervisory guidance for the FHLBanks defined needed processes and controls associated with servicing for the FHLBanks' mortgage programs. DBR's examination guidance provided examiners with worksteps needed to oversee the FHLBanks' management of mortgage servicer risks. DBR's supervisory activities during the audit scope met minimum frequency requirements and provided risk-based coverage of the FHLBanks' mortgage servicer risk management practices. DBR's supervisory conclusions regarding the FHLBanks' mortgage servicer risk management practices were supported by the results of examination work documented in examination workpapers that had been subjected to DBR quality control processes. Furthermore, DBR assessed the remediation of adverse examination findings related to the FHLBanks' management of mortgage servicer risks in accordance with DBR guidance.

While DBR's oversight of the FHLBanks' management of mortgage servicer risks was sufficient, we did note instances where examiners did not complete examination work as required by DBR's 2023 Supervisory Priorities.

RECOMMENDATIONS

We made two recommendations to address our finding. In a written response, FHFA management agreed with our recommendations.

This report was prepared by Jim Lisle, Audit Director; April Ellison, Audit Manager; Marco Uribe, Auditor-in-Charge; and Kobe Wilson, Auditor; with assistance from Abdil Salah, Assistant Inspector General for Audits. We 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.fhfaoig.gov, and www.oversight.gov.

James Hodge
Deputy Inspector General for Audits /s/

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ABBREVIATIONS

AB	Advisory Bulletin
AMA	Acquired Member Assets
DBR	Division of Federal Home Loan Bank Regulation
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
FHLBank System	Federal Home Loan Bank System
GAO	Government Accountability Office
IT	Information Technology
MRA	Matter Requiring Attention
OIG	FHFA Office of Inspector General
OPB	Operating Procedures Bulletin
PFI	Participating Financial Institution

BACKGROUND

The FHLBank System was created by the Federal Home Loan Bank Act of 1932 (FHLBank Act) as a government sponsored enterprise to support mortgage lending and related community investment. FHLBanks connect domestic financial institutions, many of which are small, community-focused lenders, to the global capital markets. Those connections make it possible for lenders to provide more consistent and sustained support for housing finance and community development. The FHLBank System consists of 11 regional FHLBanks and the FHLBanks' fiscal agent, the Office of Finance. Each FHLBank is a separate, government-chartered, member-owned corporation.[1]

FHFA's Acquired Member Asset (AMA) regulation authorizes the FHLBanks to purchase mortgages from participating financial institutions (PFIs). Under the FHLBanks' AMA programs, participating FHLBanks acquire and hold (on their balance sheets) conforming loans and loans guaranteed or insured by a department or agency of the U.S. government. The AMA programs are structured such that the FHLBank manages a loan's interest rate risk, while the participating member manages a substantial portion of the risks associated with originating the mortgage loan, including a significant portion of the credit risk.

The FHLBanks held approximately $67.4 billion of mortgage loans on their balance sheets as of September 30, 2024, up from $61.3 billion at year-end 2023.

The PFI selling the mortgage to the FHLBanks under an AMA program generally retains the servicing function. However, if a PFI sells the servicing rights to the FHLBank, the FHLBank will contract with a counterparty to service the loan on their behalf for an agreed-upon fee. Servicing refers to the administrative and financial tasks associated with the daily management of a loan or loan portfolio throughout its life. Servicing takes place from the time a loan is closed until the loan is paid off. Typical servicing functions include file transfer and setup, cashiering/cash management, investor accounting, escrow administration, customer service, collections and loss mitigation, and foreclosure.

Reliance on third-party servicers comes with risk, namely that the third-party servicer will not be able to meet its financial obligations to the FHLBanks or will not service mortgages in accordance with laws, regulations, and sound practices. Further, third-party servicers present a particular challenge to FHFA because, while the Agency oversees the FHLBanks' risk management practices, it lacks the statutory authority to supervise third-party servicers directly.

[1] The FHLBank System includes approximately 6,800 member financial institutions, each of which joins the FHLBank for the district in which the institution's home office is located. Pursuant to Section 4 of the FHLBank Act, any building and loan association, savings and loan association, cooperative bank, homestead association, insurance company, savings bank, community development financial institution, or any insured depository institution satisfying the requirements of that section may become a member of an FHLBank.

As a result, FHFA has only a limited ability to oversee risks to the FHLBanks arising from their reliance upon third-party servicers.[2]

Supervisory Expectations for the FHLBanks' Management of Mortgage Servicer Risks

The AMA regulation includes limited guidance for the FHLBanks regarding servicing, and there is no specific advisory bulletin (AB) for FHLBank Mortgage Program servicing. However, FHFA has communicated its supervisory expectations for an FHLBank's management of risk in service provider relationships in the following regulation and advisory bulletins:

- AMA Regulation (12 C.F.R. 1268) states that servicing of AMA mortgage program loans may be performed by any institution, provided the loans continue to meet AMA requirements. The regulation also defines requirements for transfers of mortgage servicing rights. These include requirements that FHLBanks approve transfers of mortgage servicing rights and maintain policies and procedures to ensure that the transfers do not negatively affect the credit enhancement on the loans in question or substantially increase the FHLBank's exposure to the credit risk for the loans.

- AB 2018-08, *Oversight of Third-Party Provider Relationships*, provides guidance on assessing and managing risks associated with third-party provider relationships. It includes the expectation that the FHLBanks establish and maintain a third-party provider risk management program that covers aspects such as responsibilities of the board and senior management, internal standards, and policies and procedures for third-party provider risk management life cycle phases.

- AB 2004-01, *Service Organizations*, provides guidance on the evaluation of an organization providing services to an FHLBank whose activities could affect the FHLBank's financial condition. It includes the requirement for the FHLBanks to gain an understanding of the service organizations' controls and to document and evaluate all controls significant to the financial reporting process.

- AB 2013-01, *Contingency Planning for High-Risk or High-Volume Counterparties*, communicates FHFA's expectations regarding the criteria that the regulated entities should use for identifying high-risk or high-volume counterparties, including internal

[2] Since 2016, FHFA reported in its Annual Report to Congress that the Government Accountability Office (GAO) recommended that Congress grant FHFA the authority to examine third parties that do business with the regulated entities similar to the authorities conferred upon the federal banking agencies through a provision in the Bank Service Company Act. *See* GAO, *Nonbank Mortgage Servicers: Existing Regulatory Oversight Could Be Strengthened* (March 2016) (GAO-16-278)

exposure and concentration limits.[3] It also includes requirements for the FHLBanks to establish contingency plans for high-risk counterparties and conduct initial and ongoing monitoring.

- AB 2014-02, *Operational Risk Management*, describes the four basic program components to manage operational risk effectively. Those four components are risk identification and assessment, measurement and modeling, reporting, and risk management decision-making.

- AB 2017-02, *Information Security Management*, provides guidance on information security management, and includes requirements for the FHLBanks to conduct periodic risk assessments, report regularly on the status of the program, and establish policies and procedures.

Annual Examinations of the FHLBanks

DBR conducts risk-based supervisory activities pertaining to the FHLBanks, including annual examinations, periodic visitations, special reviews, and offsite monitoring of each FHLBank. DBR relies on these supervisory activities to reach conclusions on each FHLBank's overall condition and the adequacy of its risk management practices. At the conclusion of an examination, DBR issues a report of examination to each FHLBank's board of directors. The report of examination communicates substantive examination conclusions, principal findings—including all Matters Requiring Attention (MRAs)—[4] and the composite and component CAMELSO ratings.[5]

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[3] Such limits can prevent excessive exposure to a counterparty in relation to the counterparty's financial condition, or excessive exposure due to a high volume or concentration of transactions with a particular counterparty or group of related counterparties.

[4] AB 2017-01, *Classifications of Adverse Examination Findings*, identifies three broad classifications of findings: MRAs, which are the most serious; recommendations; and violations. MRAs consist of either "critical supervisory matters (the highest priority), which pose substantial risk to the safety and soundness of the regulated entity" or "deficiencies," which if not corrected, could "escalate and potentially negatively affect" the regulated entity. Recommendations are advisory in nature and suggest changes to a policy, procedure, practice, or control that supervision staff believes would improve, or prevent deterioration in, condition, operations, or performance. Violations are matters in which an examination discloses noncompliance with laws, regulations, or orders.

[5] CAMELSO is a risk-focused rating system under which each FHLBank is assigned a composite rating based on an evaluation of various aspects of its operations. The components evaluated are Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk.

Mortgage loan servicing was a DBR supervisory priority for 2023.[6] In support of that prioritization, DBR noted:

> DBR first introduced the [*FHFA Examination Manual*, Servicing FHLBank Mortgage Programs module (Servicing module)] for field testing in 2018 and finalized it in 2021. With COVID-related forbearance activity coming to an end and new servicer eligibility standards announced, 2023 provides DBR an opportunity to perform a comprehensive assessment of FHLBank servicing policies and practices. Completing the Servicing Module for each FHLBank examination in one year will generate a baseline review that will not only provide the necessary information to conduct an overall assessment of servicing across FHLBanks but also inform examination scoping in future years.

Guidance for Oversight of the FHLBanks' Management of Mortgage Servicing

The Servicing module provides direction to examiners for developing the examination scope and selecting examination procedures to assess an FHLBank's servicing activities and risk management practices. This module provides examination guidance on significant risks associated with servicing, such as policies and procedures governing the establishment of appropriate risk metrics, servicer contingency plans, board and management reporting, servicing transfers, ongoing monitoring, internal or external audits, information technology (IT) controls, servicer eligibility requirements,[7] and quality control reviews. Examiners use suggested worksteps from the Servicing module to develop the scope and examination procedures for the Servicing workprogram.[8]

Because mortgage loan servicing was identified as a supervisory priority, DBR management stated in the 2023 Supervisory Priorities document, that:

> As part of the 2023 annual examination process, DBR examination staff will review servicing and complete the entire five-section workprogram (including scope of examination work performed, description of risks, risk management, testing, and conclusions) for the Servicing Module. For FHLBanks with active mortgage programs,

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[6] The annual Supervisory Priorities document serves as a guide to all DBR staff in conducting their work to fulfill DBR's responsibilities. It informs staff of emerging issues and areas needing special focus during the upcoming year. It complements established examination processes and ongoing off-site monitoring functions.

[7] Each AMA program should include clear eligibility requirements for all servicers that demonstrate each servicer's ability to meet specific financial and operational criteria (e.g., capability to perform the servicing function, financial capacity to honor contractual obligations, IT security and internal controls, insurance coverage). Once approved, the FHLBanks must monitor servicers for continued compliance with the eligibility requirements of the AMA program.

[8] A workprogram contains the examination procedures and suggested lines of inquiry, that an examiner may perform to meet the examination scope objectives and to document the basis for conclusions on the level of risk and quality of risk management pertaining to the area examined.

the scoping process should carefully consider all illustrative worksteps. Examiners should provide the general rationale for scoping out worksteps or questions.

Examiners conduct and document their work in accordance with DBR's Operating Procedures Bulletins (OPBs), which are as follows:

- 2012-DBR-OPB-03, *Workprogram Minimum Frequency Guidelines*, establishes minimum frequency guidelines for the various workprograms performed in FHLBank System examinations. The Servicing workprogram has been assigned a triennial minimum frequency.[9]
- 2016-DBR-OPB-01, *Federal Home Loan Bank Examination Workpaper Standards*, sets guidelines regarding the standards and quality of DBR examination workpapers.
- 2017-DBR-OPB-01, *Federal Home Loan Bank Adverse Examination Findings Processes*, establishes processes for issuing adverse findings, conducting remediation follow-up, and assessing FHLBank corrective actions. It complements AB 2017-01, *Classifications of Adverse Examination Findings*.
- 2018-DBR-OPB-03, *Quality Control Program*, sets forth DBR's guidance for implementing its quality control program for examination workpapers.

OBJECTIVE AND SCOPE

The objective of our audit was to assess whether DBR's oversight of the FHLBanks was sufficient to ensure management of mortgage servicer risks. The scope of our work included DBR's examinations of mortgage servicing for the FHLBanks mortgage programs from January 1, 2023, through September 30, 2024 (audit scope).

For details on methodology, see Appendix I.

[9] Workprograms can be assigned an annual, biennial, triennial, or quadrennial minimum frequency.

RESULTS ....

We concluded that DBR provided sufficient oversight of the FHLBanks' management of mortgage servicer risks. Specifically, we found the following:

- FHFA's supervisory guidance for the FHLBanks' management of mortgage servicing defined needed processes and controls commensurate with the relative risk associated with mortgage servicing.
- DBR's Servicing module provided examiners with worksteps needed to review and evaluate the FHLBanks' management of mortgage servicer risks consistent with related advisory bulletins.
- DBR performed examination activities over mortgage servicing at each of the 11 FHLBanks in accordance with the triennial minimum frequency requirement. DBR examiners completed 11 Servicing workprograms during the audit scope (one for each FHLBank in 2023 and none in 2024, given the triennial frequency). These examination activities provided risk-based coverage of FHLBanks' mortgage servicing risk management practices such as: policies and procedures governing the establishment of appropriate risk metrics; servicer contingency plans; board and management reporting; servicer due diligence, contracts, and monitoring (e.g., of servicer eligibility requirements); servicing transfers; internal or external audits; IT controls; and quality control reviews.
- DBR's examination activities for the three sampled examinations supported supervisory conclusions on the FHLBanks' management of servicing and these results were documented in accordance with applicable workpaper standards.
- DBR performed quality control reviews of the Servicing workprograms in accordance with DBR's quality control guidance for all 11 General Reviews and 4 Peer Reviews performed during our audit scope.
- DBR assessed the FHLBanks' remediation of three closed servicing-related adverse examination findings in accordance with DBR's adverse examination findings guidance.

While we concluded that DBR's oversight was sufficient to ensure that FHLBanks managed mortgage servicer risks, examiners did not complete all requirements of the 2023 Supervisory Priorities as noted in the following finding.

Finding: DBR Examiners Did Not Complete All Worksteps or Document Rationale for Scoping Out Worksteps as Required by the 2023 Supervisory Priorities

Examiners have latitude to determine the suggested examination module worksteps that they will perform to achieve their examination objective and are not typically required to document their rationale for scoping out specific worksteps. However, as noted above, for the 2023 examination process, DBR directed examination staff to complete the entire five-section Servicing module workprogram and stated that "[f]or FHLBanks with active mortgage programs, *the scoping process should carefully consider all illustrative worksteps… Examiners should provide the general rationale for scoping out worksteps or questions*." [emphasis added]

DBR management chose a comprehensive review of FHLBank servicing policies and practices in 2023 to generate a baseline assessment of servicing across FHLBanks and to inform examination scoping in future years.

Examiners completed substantially all of the 64 illustrative worksteps in the Servicing module (or completed their own worksteps that addressed risk areas identified in the module) in examinations at 6 of the 11 FHLBanks at which the servicing workprogram was completed in 2023. However, in examinations at the remaining five FHLBanks, examiners performed worksteps in each of the five sections of the workprogram but completed substantially fewer worksteps in total (in some cases as few as 12 of the 64 illustrative worksteps). While the examination focus at these five FHLBanks varied, the scope of work was a high-level review of servicing policies, procedures, and practices, and board limits and reporting, with limited testing. None of the workpapers for these examinations documented the rationale for scoping out Servicing module worksteps as required by DBR's 2023 Supervisory Priorities.

DBR officials told us that the examiners for the five FHLBanks used DBR's typical risk-based approach to determine the worksteps performed and, accordingly, did not perform all the worksteps in the Servicing module. The officials acknowledged that they should have done a better job of documenting the rationale for omitting the worksteps. Examiners did provide us with statements of the rationale for omitting specific worksteps such as: an assessment of risk based upon the examiner's institutional knowledge of the FHLBank's processes; work on the risk area had been done in prior years; or examiners had reviewed work done on the risk area performed by internal auditors. We determined that DBR's statements of rationale were consistent with both its risk-based approach and supervisory framework.

According to the *Standards for Internal Control in the Federal Government* (Green Book), management should design, and implement through policies, control activities (e.g., reviews by management) to achieve objectives and respond to risks. We noted that none of the five servicing workprograms were subjected to an Examiner-in-Charge, Peer, or Independent Quality Control review. Conversely, 4 of the 6 Servicing workprograms in which substantially all of the worksteps were performed had been subjected to an Examiner-in-Charge or Peer Review. DBR's Quality Control OPB does not require that work addressing the 2023 Supervisory Priorities be subject to review. While we cannot conclude that the lack of a quality control review caused this condition, we do note that these control activities are useful to ensure that management achieves its objective and responds to identified risks.

DBR's oversight was consistent with its risk-based approach and supervisory framework. However, in the absence of documentation that examiners complied with DBR's supervisory priorities guidance, it is unclear whether this examination work met DBR management's supervisory intent – a comprehensive, baseline assessment of mortgage servicing across FHLBanks that informs examination scoping in future years. DBR's End of Year Supervisory Priority Memorandum noted that the completion of the Servicing workprogram worksteps varied across examinations and stated that the supervisory priority will not be continued into 2024. However, this memorandum did not state whether management's supervisory intent was achieved.

Recommendations

We recommend that the Deputy Director, DBR:

1. Document the rationale for omitting worksteps for the five examinations not meeting the requirements of the 2023 Supervisory Priorities. As part of the documentation, include a determination of whether a baseline assessment of mortgage servicing was achieved.

2. Consider whether examination work addressing specific supervisory priorities should be subjected to Examiner-in-Charge, Peer, or Independent Quality Control reviews. Update quality control procedures, as needed, to ensure that they assist management in achieving its objectives (e.g., specific supervisory priorities) and responding to identified risks.

FHFA COMMENTS AND OIG EVALUATION................................

We provided FHFA management an opportunity to review and provide technical comment to a draft of this audit report. We considered those comments in finalizing the report. In a written response, FHFA management agreed with our recommendations and included the following planned corrective actions.

1. DBR will document its rationale for scoping out related worksteps for the five 2023 examinations not meeting the requirements of the 2023 Supervisory Priorities. Additionally, DBR will determine and document whether it achieved a baseline

assessment of mortgage servicing on the 2023 examinations. DBR will complete this by September 15, 2025.

2. DBR is in the process of revising its examination approach including the identification of examination priorities. As part of the revised approach, DBR will assess the role of reviews of examination priorities and other examination work including reviews by examiners-in-charge, supervisory examiners, peers, and/or independent quality control staff. DBR will complete this by September 15, 2025.

We consider FHFA's planned corrective actions responsive to the recommendations. FHFA's written response, in its entirety, is included as Appendix II to this report.

APPENDIX I: METHODOLOGY..

To accomplish our objective, we performed the following procedures:

- Reviewed Government Accountability Office's *Standards for Internal Control in the Federal Government* (GAO-14-704G; September 2014) and determined that the control activities component of internal control was significant to this objective. We focused on the underlying principles that management should: (1) design control activities to achieve objectives and respond to risks; and (2) implement control activities through policies.

- Assessed the following FHFA supervisory guidance related to mortgage servicing to determine whether, as a whole, the supervisory guidance defines risk management practices needed for the servicing of mortgages acquired through FHLBanks' mortgage programs:

  - AMA Regulation (12 C.F.R Part 1268)
  - AB 2004-01, *Service Organizations* (March 2004)
  - AB 2013-01, *Contingency Planning for High-Risk or High-Volume Counterparties* (April 2013)
  - AB 2014-02, *Operational Risk Management* (February 2014)
  - AB 2017-02, *Information Security Management* (September 2017)
  - AB 2018-08, *Oversight of Third-Party Provider Relationships* (September 2018)

- Assessed the Servicing module to determine the extent to which it included worksteps that addressed the risk management practices defined in the aforementioned FHFA supervisory guidance.

- Reviewed the following FHFA and DBR guidance to identify requirements for DBR's supervisory activities:

  - FHFA, *FHFA Examination Manual* (December 2013)
  - 2012-DBR-OPB-03, *Workprogram Minimum Frequency Guidelines* (revised October 1, 2020)
  - 2016-DBR-OPB-01, *Federal Home Loan Bank Examination Workpaper Standards* (revised September 9, 2020)

- 2017-DBR-OPB-01, *Federal Home Loan Bank Adverse Examination Findings Processes* (revised January 31, 2022)

- 2018-DBR-OPB-03, *Quality Control Program* (revised December 21, 2021)

- Reviewed prior FHFA-OIG reports to identify findings and recommendations related to the FHLBanks' management of mortgage servicer risks and determined there was no impact on our audit.

  - OIG, *DBR Provided Sufficient Oversight of the Federal Home Loan Banks' Mortgage Programs* (September 25, 2024) (AUD-2024-011)

  - OIG, *FHFA's Oversight of the MPF Xtra Program* (April 22, 2014) (ESR-2014-007)

- Interviewed DBR personnel to gain an understanding of DBR's oversight of the FHLBanks' management of mortgage servicer risks. DBR personnel included the Deputy Director, Senior Associate Directors, Associate Directors, Principal Examiners, Supervisory Examiners, a Senior Financial Database Specialist, Management Analysts, as well as a Supervisory Examination Specialist responsible for conducting independent quality control reviews of DBR examination workpapers. Obtained written responses from DBR personnel to address questions and observations related to our audit testing procedures.

- Reviewed DBR's Servicing examination scope memoranda prepared for examinations conducted during our audit scope to determine: (a) the population of Servicing workprograms completed by DBR and (b) whether DBR complied with 2012-DBR-OPB-03, *Workprogram Minimum Frequency Guidelines* for the Servicing workprogram. We found that DBR completed the Servicing workprogram 11 times during our audit scope (once for each FHLBank).

- Analyzed the Servicing workprograms completed for each of the FHLBank examinations conducted during our audit scope to determine whether DBR's examination procedures, taken as a whole, addressed risk management practices defined in the AMA regulation and related advisory bulletins (e.g., policies and procedures governing the establishment of appropriate risk metrics, servicer contingency plans, board and management reporting, servicing transfers, ongoing monitoring, internal or external audits, IT controls, monitoring of servicer eligibility requirements, and quality control reviews).

- Selected 3 of 11 (27 percent) FHLBank examinations in which the Servicing workprogram was completed during our audit scope to assess whether DBR's examination workpapers complied with 2016-DBR-OPB-01, *Federal Home Loan Bank*

Examination Workpaper Standards, including whether examiners' supervisory conclusions were supported by the results of examination work documented in the examination workpapers. We judgmentally selected our sample to ensure that a selection would be made from (1) each of DBR's three examination teams and (2) an FHLBank that is also an administrator for one of the three FHLBank AMA mortgage programs. Accordingly, we do not project the results across the entire population of FHLBank examinations where the Servicing workprogram was completed.

- Reviewed the population of quality control reviews of examinations pertaining to mortgage servicing and segregated them into two groups: (1) General Reviews completed by DBR's Quality Control Branch (QCB), who are independent of examination teams, and (2) Peer Reviews performed by DBR examination team members. QCB General Reviews are independent quality control reviews of an entire examination focused on assessing the accuracy, consistency, and sufficiency of examination planning, summary results, and the Report of Examination. Peer Reviews assess compliance with workpaper standards for a workprogram, but are performed by a member of the examination team who did not perform the examination work rather than QCB personnel. DBR's QCB completed 11 General Reviews and DBR examination staff completed 4 Peer Reviews during our audit scope. We reviewed all 11 General Reviews and all 4 Peer Reviews that were completed. We assessed whether the reviews were performed in accordance with 2018-DBR-OPB-03, *Quality Control Program* (updated December 21, 2021) and whether all substantive issues identified in the quality control reviews were resolved prior to the issuance of the report of examination.

- Assessed whether DBR examiners evaluated FHLBanks' remediation of servicing-related adverse examination findings in accordance with 2017-DBR-OPB-01, *Federal Home Loan Bank Adverse Examination Findings Processes*. There were four servicing-related adverse examination findings open during our audit scope – two MRAs and two Recommendations. Of these, one MRA and both Recommendations were closed during our audit scope and one MRA remained open as of the end of our audit scope. Due to the limited number of MRAs, we reviewed all three servicing-related adverse examination findings closed during our audit scope. We tested to assess whether DBR examiners: monitored progress of corrective actions against the FHLBank's remediation plan; assessed FHLBank's Internal Audit's validation of corrective actions; documented supervisory concurrence, where needed; and assessed sufficiency of corrective actions, in compliance with 2017-DBR-OPB-01.

- Assessed the sufficiency of oversight by determining whether: (1) DBR's supervisory guidance for the FHLBanks defined needed processes and controls associated with servicing for the FHLBanks' mortgage programs; (2) DBR's examination guidance provided examiners with worksteps needed to provide oversight of the FHLBanks' management of mortgage servicer risks; (3) DBR's supervisory activities during the audit scope met minimum frequency requirements and provided risk-based coverage of the FHLBanks' mortgage servicer risk management practices; (4) DBR's supervisory conclusions regarding the FHLBanks' mortgage servicer risk management practices were supported by the results of examination work documented in examination workpapers that had been subjected to DBR quality control processes; and (5) DBR assessed the remediation of adverse examination findings related to the FHLBanks' management of mortgage servicer risks in accordance with DBR guidance.

We conducted this performance audit from September 2024 to March 2025, at our headquarters in Washington, D.C., in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX II: FHFA MANAGEMENT RESPONSE.........................

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Federal Housing Finance Agency

MEMORANDUM

TO: James Hodge, Deputy Inspector General for Audits

FROM: Joshua Stallings, Deputy Director, Division of FHLBank Regulation

JOSHUA STALLINGS

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Date: 2025.03.26 11:22:47 -04'00'

SUBJECT: Draft Audit Report: *DBR's Oversight Was Sufficient to Ensure That FHLBanks Managed Mortgage Servicer Risks But Examiners Did Not Follow Steps Outlined in Its 2023 Supervisory Priorities Audit* (*OA-25-006)*

DATE: March 26, 2025

Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report. The objective of OIG's audit was to determine whether the Division of FHLBank Regulation's (DBR) oversight of the FHLBanks was sufficient to ensure the management of mortgage servicer risks. While the report concluded that DBR provided sufficient oversight of the FHLBanks' management of mortgage servicer risks, it identified instances where examiners did not complete examination work as required by DBR's 2023 Supervisory Priorities and offered two recommendations. As outlined below, FHFA agrees with the two recommendations.

Recommendation: Document the rationale for omitting worksteps for the five examinations not meeting the requirements of the 2023 Supervisory Priorities. As part of the documentation, include a determination of whether a baseline assessment of mortgage servicing was achieved.

Management Response: FHFA agrees with the recommendation. Regarding the 2023 Supervisory Priority requirements related to Mortgage Servicing, DBR will document its rationale for scoping out related worksteps on the five 2023 examinations not meeting the requirements. Additionally, DBR will determine and document whether it achieved a baseline assessment of mortgage servicing on the 2023 examinations. DBR will complete this by September 15, 2025.

Recommendation: Consider whether examination work addressing specific supervisory priorities should be subjected to Examiner-in-Charge, Peer, or Independent Quality Control reviews. Update quality control procedures, as needed, to ensure that they assist management in achieving its objectives (e.g., specific supervisory priorities) and responding to identified risks.

Management Response: FHFA agrees with the recommendation. DBR is in the process of revising its examination approach including the identification of examination priorities. As part of the revised approach, DBR will assess the role of reviews of examination priorities and other examination work including reviews by examiners-in-charge, supervisory examiners, peers, and/or independent quality control staff. DBR will complete this by September 15, 2025.

We would like to acknowledge the dedication and professionalism by the OIG staff who conducted this audit. We find the report and its conclusions valuable in continuing to enhance our supervisory program. If you have any questions relating to our response, please contact Ed Stolle.

cc: Edom Aweke
John Major
Mark David
Ed Stolle

Federal Housing Finance Agency
Office of Inspector General

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