



Highlights of [GAO-03-364](#), a report to the Ranking Member, Senate Committee on Banking, Housing, and Urban Affairs; the Ranking Member, House Committee on Financial Services; and the Chairman, Subcommittee on Capital Markets

Why GAO Did This Study

The Federal Home Loan Bank System (System) faces additional risks due to the development of new products such as direct mortgage purchase programs. Responding to concern about the methods used for administrative decisionmaking, and the ability of the Federal Housing Finance Board (FHFB) to fulfill its critical mission to regulate the safety and soundness of the System, GAO was asked to (1) compare the FHFB chair's administrative authorities with those of other financial regulators and discuss the basis for that authority, (2) assess FHFB's compliance with selected statutes and regulations in connection with an August 2002 reduction-in-force (RIF) carried out as part of an agency reorganization, and (3) assess FHFB's progress in enhancing its FHLBank safety and soundness examination program.

What GAO Recommends

GAO recommends (1) that the FHFB board consider options that would help ensure full board participation in key administrative decisions, such as senior appointments and agency reorganizations and (2) FHFB comply with applicable federal age discrimination requirements in offering settlements during RIFs.

In written comments, FHFB said that the delegation of authority provides the best means to manage the agency. FHFB agreed with one finding regarding the settlements but disagreed with two others.

www.gao.gov/cgi-bin/getrpt?GAO-03-364.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Thomas J. McCool at (202) 512-8678 or mccoolt@gao.gov.

FINANCIAL REGULATION

Review of Selected Operations of the Federal Housing Finance Board

What GAO Found

FHFB's chair has greater authority to make key administrative decisions than the chairs at five of the six other financial regulators GAO reviewed. FHFB's chair has the authority to appoint and remove officials and reorganize the agency without a vote by the board. In contrast, statutes, regulations, and practices limit the chairs' authorities at most other regulators. In particular, the boards or commissions at these agencies approve most senior-level appointments and several boards approve major reorganizations. The basis for the FHFB chair's comparatively broad administrative authority is a delegation of authority, which the board passed in 1990 and 1993 (see excerpt below). The delegation allows the chair to make and implement key decisions without obtaining or benefiting from the views of all board members and has contributed to sometimes bitter conflicts among board members over the past 8 years.

Although FHFB provided significant financial compensation to staff subject to the RIF, its procedures were not fully consistent with all applicable federal age discrimination statutes and regulations. For example, FHFB presented a settlement agreement to separated staff that offered 3 to 6 months salary in exchange for, among other things, the employees agreeing to waive their rights to file charges, complaints, or appeals with the Equal Employment Opportunity Commission (EEOC). EEOC regulations implementing the Age Discrimination in Employment Act do not permit waivers of employees' rights to file charges or complaints with EEOC. In addition, FHFB did not advise the affected employees in writing to consult an attorney prior to signing the agreements as is required.

Although for several years FHFB did not take steps to correct weaknesses in its FHLBank examination program that GAO identified in a 1998 report, FHFB's current Chair has recently undertaken several steps to improve its examinations. In 1998, and again in 2002, GAO found that FHFB performed limited reviews of FHLBank functions that are critical in managing the banks' financial and operational risks. Among other changes announced in 2002, FHFB plans to increase the number of examiners from 10 to 24 and revise its examination approach to focus on the major risks and quality of controls at each FHLBank. Although these changes have the potential to improve FHFB's examination program, it is too soon to assess their effectiveness.

Excerpt from 1993 FHFB Delegation of Authority

The Board hereby delegates to the Chairperson all authorities, powers, and responsibilities of the Board necessary to effect the overall management, functioning and organization of the Finance Board including, without limitation the authority to...appoint, remove, promote...Finance Board personnel.

Source: FHFB.