



# **Diversity and Inclusion Examination Manual**

**Federal Housing Finance Agency  
Office of Minority and Women Inclusion**

**Version 1.0**

**Effective December 2020**

<b><u>Contents</u></b>	<b><u>Page Number</u></b>
Abbreviations	ii
<b>Part I</b>	
Purpose of the Manual	1
Overview of FHFA	1
Overview of OMWI	3
D&I Enforcement Standards	4
Overview of the Regulated Entities	4
<b>Part II</b>	
FHFA D&I Rating System	8
Overview of D&I Examinations	9
Examination Types	9
Examination Basics	10
Examination Process	11
Enterprises and CSS	11
FHLBank System	11
<b>Part III</b>	
Evaluating D&I Programs	15
Board Diversity	15
Board Oversight	17
Enterprise Risk Management	18
Strategic Planning	18
Organizational Framework	21
Workforce D&I	25
Procurement	28
Finance	32
Data Management	35
Compliance	40
Internal Audit	40
<b>Appendix</b>	
Alert Letter Template	42
Alert Document Request Template	44
Alert Letter OMWI Officer Questionnaire Template	45
D&I Workprogram Template	46
D&I Report of Examination Template	47
References	62
HERA	
MWI Rule	
Advisory Bulletins	

board .....	board of directors
CAMELSO .....	Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, Operational Risk
CDO .....	Collateralized Debt Obligation
CEO .....	Chief Executive Officer
CLEAR .....	Competitive Liquid Efficient and Resilient
CO .....	Consolidated Obligation
COO .....	Chief Operating Officer
CRO .....	Chief Risk Officer
CSP .....	Common Securitization Platform
CSS .....	Common Securitization Solutions LLC
D&I .....	Diversity and Inclusion
D&I Workprogram.....	D&I Examination Workprogram
DBR .....	Division of Bank Regulation
Dodd-Frank Act .....	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EIC .....	Examiner-in-Charge
ERM .....	Enterprise Risk Management
Fannie Mae.....	Federal National Mortgage Association
FHFA .....	Federal Housing Finance Agency
FHLBank.....	Federal Home Loan Bank
FHLBank Act.....	Federal Home Loan Bank Act
FHLBank System.....	Federal Home Loan Bank System
FIRREA .....	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
Freddie Mac .....	Federal Home Loan Mortgage Corporation
HERA.....	Housing and Economic Recovery Act of 2008
IA .....	Internal Audit
Manual .....	OMWI Diversity and Inclusion Manual
MBS .....	Mortgage-backed securities
MRA .....	Matter(s) Requiring Attention
MWI Rule .....	Minority and Women Inclusion Rule
MWDOB.....	Minority-, Women-, and Disabled-Owned Businesses
NRSRO .....	Nationally Recognized Statistical Ratings Organization
OF .....	Office of Finance
OMWI.....	Office of Minority and Women Inclusion
OMWI AD .....	Office of Minority and Women Inclusion Associate Director
SES.....	OMWI Supervisory Examination Specialist
RE .....	Regulated Entity
ROE.....	Report of Examination
Safety and Soundness Act.....	Federal Housing Enterprises Financial Safety and Soundness Act of 1992
SEC .....	Securities Exchange Commission
TBA.....	To-be-Announced
UDA.....	User-Developed Application
UMBS .....	Uniform Mortgage Backed Securities

## **PART I**

### **Purpose of the Manual**

The Federal Housing Finance Agency (FHFA or Agency) Diversity and Inclusion (D&I) Examination Manual's (Manual) purpose is to document D&I examination objectives and procedures in order to provide guidance to the Office of Minority and Women Inclusion (OMWI) D&I Examiners, and to promote an effective, efficient and consistent examination process. The Manual also serves as a general resource for the public on matters involving D&I examinations, including examination scope, process, policies, and procedures.

The Manual contains standards and expectations for the examination of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises), Common Securitizations Solutions LLC (CSS), an affiliate of the Enterprises, and the Federal Home Loan Banks (FHLBs), and its fiscal agent, the Office of Finance (OF) (collectively, the FHLBank System). The Enterprises, the FHLB System, and CSS, as an affiliate of the Enterprises, are known collectively as “the regulated entities.”<sup>1</sup>

OMWI will update the Manual from time to time to reflect evolving examination practices, changes in the regulatory landscape, and supervisory expectations.

### **Overview of FHFA**

FHFA was established by the Housing and Economic Recovery Act of 2008<sup>2</sup> (HERA). The Agency is responsible for the effective supervision, regulation, and housing mission oversight of the Fannie Mae, Freddie Mac, and the FHLBank System. The FHFA’s mission is to ensure that the regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment through the economic cycle. Since September 6, 2008 FHFA has also served as conservator of each Enterprise.

FHFA also has the statutory obligation to ensure that the operations and activities of each regulated entity foster competitive, liquid, efficient, and resilient (CLEAR) national housing finance markets. Achieving a liquid, resilient housing finance market throughout the country also requires improved access to responsible mortgage credit across different market segments of creditworthy borrowers.

---

<sup>1</sup> The OF and CSS are not separate “regulated entities” as the term is defined by statute (see 12 U.S.C. 4502(20)). Rather, the OF is part of the FHLB System, and CSS is an affiliate of the Enterprises. However, for convenience, references to the “regulated entities” in this manual should be read to also apply to the OF and CSS, unless otherwise noted.

<sup>2</sup> 12 U.S.C. § 4511.

## Regulator

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act) as amended by HERA, assigns to FHFA regulatory oversight of the regulated entities.<sup>3</sup> The statute vests FHFA with the authorities, similar to those of other prudential financial regulators, to maintain the financial health of the regulated entities. FHFA is responsible for supervising the business and operations of the regulated entities to ensure that they are safe and sound and aligned with the missions set forth in their authorizing statutes. FHFA exercises these regulatory and supervisory authorities by issuing rules, policy guidance documents, and regulatory orders.

The Safety and Soundness Act requires FHFA to fulfill “two principal duties.”

- A. to oversee the prudential operations of each regulated entity; and
- B. to ensure that—
  - i. each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal controls;
  - ii. the operations and activities of each regulated entity foster CLEAR national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities);
  - iii. each regulated entity complies with this chapter and the rules, regulations, guidelines, and orders issued under this chapter and the authorizing statutes;
  - iv. each regulated entity carries out its statutory mission only through activities that are authorized under and consistent with this chapter and the authorizing statutes; and
  - v. the activities of each regulated entity and how a regulated entity is operated are consistent with the public interest.<sup>4</sup>

## Conservator

The FHFA’s authority as both conservator and regulator of the Enterprises is based upon statutory mandates, which include the following conservatorship authorities granted by HERA:

- (D) ...take such action as may be—
  - i. necessary to put the regulated entity in a sound and solvent condition; and
  - ii. appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity.<sup>5</sup>

Continuing the business of the Enterprises in conservatorships also incorporates the above-referenced responsibilities that are enumerated in 12 U.S.C. § 4513(a)(1).

---

<sup>3</sup> 12 U.S.C. § 4513.

<sup>4</sup> 12 U.S.C. § 4513(a)(1).

<sup>5</sup> 12 U.S.C. § 4617(b)(2)(D).

Additionally, under the Emergency Economic Stabilization Act of 2008, FHFA has a statutory responsibility in its capacity as conservator to “implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of...available programs to minimize foreclosures.”<sup>6</sup>

## **Overview of OMWI**

Section 342 of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010<sup>7</sup> (Dodd-Frank Act) established OMWI for FHFA and other federal financial agencies. The Dodd-Frank Act sets forth the roles and responsibilities of OMWI and the OMWI Director and requires OMWI to “be responsible for all matters of the Agency relating to diversity in management, employment, and business activities.”

Section 1116 of HERA requires the FHFA's regulated entities to establish an office that promotes diversity in all activities at every level of their organization, including employment, management, and contracting. The OMWI Director oversees the FHFA D&I programs and related activities, including, but not limited to, OMWI Supervision and Examinations, D&I policy development, research and analysis, data analysis, monitoring, and assessments in support of the FHFA's mission and the OMWI Director's responsibilities.

To implement Section 1116, FHFA adopted the Minority and Women Inclusion Rule<sup>8</sup> (MWI Rule) in 2010, setting forth the minimum requirements for diversity programs and reporting requirements for the regulated entities. Each of the regulated entities must implement policies and procedures to ensure, to the maximum extent possible in balance with financially safe and sound business practices, the diversity and inclusion of minorities, women, individuals with disabilities, and minority-, women-, and disabled-owned businesses (MWDOBs) in all business activities at all levels of the regulated entity, including in management, employment, procurement, insurance, and all types of contracts. In 2017, the MWI Rule was amended to, among other things, require regulated entities to adopt strategic D&I plans.

The MWI Rule authorizes OMWI to examine and assess the quality of D&I programs at the regulated entities. The OMWI Supervision branch consists of the D&I Policy and Examinations sections. The Policy section is responsible for the FHFA's policy development and analysis of the regulated entities' D&I obligations. The Examinations section oversees and examines their D&I programs under the FHFA's D&I Examination Program to ensure that the regulated entities execute strategies and goals that comply with the letter and spirit of HERA and the MWI Rule. OMWI examination activities include ongoing monitoring and targeted on-site and off-site examinations focused on workforce, procurement, and finance activities of each regulated entity.

OMWI began D&I supervision with baseline reviews of the regulated entities in 2015 and 2016. In 2016, FHFA approved incorporation of D&I into Agency examinations. D&I Examiners complete annual and other routine reviews of all FHFA's regulated entities. OMWI monitors and assesses the regulated entities' compliance with the D&I laws and regulations through on-

---

<sup>6</sup> 12 U.S.C. § 5220(b)(1).

<sup>7</sup> 12 U.S.C. § 5452.

<sup>8</sup> 12 C.F.R. Part 1223.

site examinations and off-site monitoring and analysis. D&I Examiners may be assigned to examine any of the regulated entities and should apply examination guidance, as appropriate. Examination activities adhere to annually established supervisory strategies, examination scope and examination plans.

## **D&I Enforcement Standards**

The FHFA Director has broad enforcement authority to enforce standards issued under HERA in any manner and through any means within his authority, including through identifying Matters Requiring Attention (MRAs), corrective action orders, directives, or enforcement actions.

## **Overview of the Regulated Entities**

### **Fannie Mae**

Fannie Mae is a regulated entity and, since 1968, a privately owned and publicly traded company. Fannie Mae was founded in 1938 during the Great Depression as part of the New Deal and its mission is to expand the secondary mortgage market by securitizing mortgage loans in the form of Mortgage-backed securities (MBS), allowing lenders to reinvest their assets into more lending and in effect increasing the number of lenders in the mortgage market by reducing the reliance on locally based savings and loan associations. The business management infrastructure of Fannie Mae includes its board of directors (board) and management team. The headquarters of this Enterprise is in Washington, D.C.

### **Freddie Mac**

Freddie Mac is a regulated entity that was created in 1970 and owned by the FHLBank System to expand the secondary market for mortgages in the United States. In response to the savings and loan crisis of the late 1980s, Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), which reconstituted Freddie Mac as a privately owned and publicly traded corporation, like Fannie Mae.

Freddie Mac buys mortgages on the secondary market, pools them, and sells them as a MBS to investors on the open market. This secondary mortgage market increases the supply of money available for mortgage lending and increases the money available for new home purchases. The business management infrastructure of Freddie Mac includes its board and management team. The headquarters of this Enterprise is in McLean, Virginia.

### **Common Securitization Solutions, LLC**

CSS, a limited liability corporation, was formed in 2013 at the direction and guidance of FHFA and is a joint venture of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac each own fifty (50) percent of CSS which owns and operates the Common Securitization Platform (CSP). The CSP is a new securitization infrastructure for the Enterprises for mortgage loans backed by one- to four-unit (single-family) properties. CSP supports the issuance by both Enterprises of a common, single MBS (called the Uniform Mortgage Backed Security or UMBS). These securities will finance the same types of fixed-rate mortgages that currently back Enterprise-

guaranteed securities eligible for delivery in the To-be-Announced (TBA) market, a forward market for certain MBS including those issued by Fannie Mae and Freddie Mac. CSS, as a joint venture of the Enterprises, and equally owned by both of them, is considered an affiliate of each Enterprise. Fannie Mae and Freddie Mac, as the FHFA regulated entities is each defined as including their respective affiliates. CSS is governed by an independent Chairperson of the Board of Managers and Chief Executive Officer (CEO). CSS is located in Bethesda, Maryland.

### **FHLB Banks**

The FHLBank System was chartered by Congress in 1932 under the Federal Home Loan Bank Act (FHLB Act). Its primary mission is to provide member financial institutions with financial products and services that assist and support the financing of housing and community lending and investment. The FHLBank System includes 11 regional U.S. government-sponsored banks and with their members, the FHLBanks represent the largest collective source of home mortgage and community credit in the United States.

Each FHLBank is a cooperatively structured, privately capitalized regulated entity. The FHLBanks are federal instrumentalities, chartered specifically to carry out federal policy to enhance the availability of credit for residential mortgages and community development finance. The FHLBanks provide a readily available, economical and affordable source of funds in the form of advances to their member institutions. Along with their operational senior management, the FHLBanks are each governed by boards of directors ranging from 14 to 29 directors in number and primarily drawn from the member institutions. The boards of directors also include independent directors who are not drawn from the member institutions and are not employees of the banks. Independent directors are required to possess knowledge or expertise in financial management, derivatives, auditing and accounting, risk management practices, project development, organizational management, or the law and should have documented leadership experience in senior management or policy-making, business knowledge, financial literacy, a commitment to serve and a record of personal integrity.

FHLBanks headquarters are currently located in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, New York, Pittsburgh, San Francisco, and Topeka.

## 11 Federal Home Loan Bank Districts



6/1/2015

### Office of Finance

The OF is the fiscal agent for the FHLBanks. It is responsible for offering, issuing, and servicing all debt securities on behalf of the regional FHLBanks, as well as preparing the combined financial reports. The OF has no portfolio of its own. Although the individual FHLBanks are SEC registrants, the FHLBank System is not. Therefore, the FHLBank System financial reports are properly viewed as “combined” rather than “consolidated.” The two overarching considerations are that the OF issues Consolidated Obligations (COs) at the lowest, long-term, all-in cost consistent with the FHLBanks’ status as regulated entities, and efficiently services COs to allow payment of all principal and interest to occur in a timely manner. The leverage or risk-based capital requirements applicable to the FHLBanks place an implicit limit on the issuance of COs.

In addition, the OF coordinates the provision of information from the FHLBanks to Nationally Recognized Statistical Ratings Organizations (NRSROs) concerning the rating of COs, the preparation of the combined financial reports of the FHLBanks, and the provision of other securities disclosures. The OF serves as a source of information for FHLBanks on general capital market developments and manages the FHLBanks’ relationship with the credit rating agencies regarding the COs.

The OF is governed by a 16-person board, consisting of the 11 FHLBank presidents and 5 independent directors. If the presidency of any FHLBank becomes vacant, the person designated

by the FHLBank's board to temporarily fulfill the duties of president of that FHLBank will serve on the OF board until the presidency is filled permanently. Independent directors are elected by majority vote of the OF board, subject to FHFA's review and non-objection to the nominees. The independent directors each serve five-year terms (staggered so that no more than one independent director seat becomes vacant in any one year). The chair of the board is selected from the independent directors and the vice-chair is selected from all directors. The OF operates under the day-to-day supervision of a CEO. The OF is located in Reston, Virginia.

## **PART II**

### **FHFA D&I Rating System**

FHFA's D&I Examination Rating System is structured to be similar to FHFA's Safety and Soundness Examination Rating System,<sup>9</sup> each regulated entity is assigned a D&I composite rating from "1" to "5." A "1" rating indicates the lowest level of supervisory concern, while a "5" rating indicates the highest level of supervisory concern. The composite rating of each regulated entity reflects the conclusions of the underlying review areas, which are individually rated as either "adequate" or "inadequate."

FHFA will rate a minimum of five review areas using the following approach, with all review areas being weighted equally, and assign a composite rating using the follow scale:

- Rated "1" – all five areas reviewed are deemed adequate
- Rated "2" – one area reviewed is deemed inadequate
- Rated "3" – two areas reviewed are deemed inadequate
- Rated "4" – three to four areas reviewed are deemed inadequate
- Rated "5" – all five areas reviewed are deemed inadequate

A rating of "1" indicates: The performance by the board and management, and D&I management practices relative to the regulated entity's size, complexity, and D&I profile are strong. All significant goals are consistently and effectively identified, measured, monitored, and controlled. The regulated entity is in substantial compliance with laws, regulations, and regulatory requirements, including mission-related requirements. The board and management demonstrate the ability to promptly and successfully address existing and potential problems and risks.

A rating of "2" indicates: The performance by the board and management, and D&I management practices relative to the regulated entity's size, complexity, and D&I profile are satisfactory. Generally, significant goals and problems are effectively identified, measured, monitored, and controlled. The regulated entity is in substantial compliance with laws, regulations, and regulatory requirements, including mission-related requirements. Minor weaknesses may exist, but they are not material to the mission of the regulated entity and are being satisfactorily addressed.

A rating of "3" indicates: The performance by the board and management, and/or D&I management practices need improvement given the regulated entity's size, complexity, and D&I profile. Problems and significant goals may be inadequately identified, measured, monitored, or controlled. The regulated entity may be in non-compliance with laws, regulations, and regulatory requirements, including mission-related requirements. The capabilities of the board or management may be insufficient for the type, size, or condition of the D&I program of a regulated entity.

A rating of "4" indicates: The performance by the board and management and/or D&I management practices are deficient given the regulated entity's size, complexity, and D&I profile. Organizational, operational, performance problems, and significant goals are

---

<sup>9</sup> Advisory Bulletin: AB-2012-03.

inadequately identified, measured, monitored, or controlled, and require immediate action to preserve the mission of the regulated entity. The regulated entity may be in significant non-compliance with laws, regulations, and regulatory requirements, including mission-related requirements.

A rating of “5” indicates: The performance by the board and management and/or D&I management practices are critically deficient. Problems and significant goals are inadequately identified, measured, monitored, or controlled, and may threaten the mission of the regulated entity. The regulated entity is in violation of laws, regulations, and regulatory requirements, including mission-related requirements. The board and management have failed to demonstrate the ability or willingness to correct problems and implement appropriate management practices.

## **Overview of D&I Examinations**

FHFA has the statutory authority and responsibility to examine the regulated entities under the FHLBank Act and the Safety and Soundness Act. FHFA conducts annual examinations to determine the condition of, and evaluate the risk management practices of, each regulated entity. FHFA also conducts periodic, interim on-site visits, which enable the FHFA examination teams to monitor developments at the regulated entities, check progress on the remediation of examination findings, and develop information that may be used to amend a comprehensive risk analysis of the regulated entity, known as the Supervisory Strategy. The Supervisory Strategy is discussed in detail later in this section.

### **Examination Types**

FHFA performs reviews and assessments of the regulated entities’ D&I programs at various intervals utilizing different examination types. D&I program assessments occur during annual examinations, as a part of a continuous strategy of supervision, during mid-year or periodic on-site visitations, targeted examinations, and ongoing monitoring.

#### **Annual Examination Cycle**

##### *FHLBank System*

Annual D&I Examinations of the FHLBank System are performed during the annual FHFA examination required by the Safety and Soundness Act. Examinations are conducted against a defined scope driven by the Supervisory Strategy.

On-site visitations take place four to six months following the completion of an annual examination but may occur more frequently. More frequent on-site visitations to the regulated entities can occur due to events causing increased supervisory concern. The purpose of these visits is to monitor the current status of the regulated entity’s D&I program, to discuss emerging issues and strategies and, if applicable, assess the entity’s progress in addressing specific deficiencies and relevant remediation plans.

FHFA conducts examinations or other supervisory activities adhering to the specific requirements and guidelines of the D&I sections of the Manual as well as other FHFA

examination guidance, as applicable. Examination scope and documentation is designed by the examination team to fulfill the goals of the Supervisory Strategy. The examination scope will be approved in advance by the Supervisory Examination Specialist (SES) and post-examination quality control procedures will be performed to ensure that the scope, documentation, and conclusions are appropriate and consistent with the FHFA requirements.

FHFA issues a D&I Report of Examination (ROE), a written report of conclusions, including a D&I Composite Rating. FHFA tracks all significant, outstanding examination issues to resolution to ensure that the regulated entities' remediation measures are adequate and completed in a timely manner.

### *Enterprises and CSS*

FHFA's continuous supervision program for the Enterprises emphasizes ongoing monitoring, which allows for timely adjustments to the Supervisory Strategy as conditions change within the Enterprises. The purpose of ongoing monitoring is to analyze information and use those analyses for the determination of the status of an Enterprise's compliance with supervisory guidance, to identify Enterprise practices and changes in the Enterprise's D&I profile that may warrant supervisory attention. This approach allows the examination team to monitor and evaluate the Enterprise's D&I program and management on a continual basis. D&I Examiners review keyboard and management reports and hold periodic meetings to engage management and discuss relevant issues and developments. The results of ongoing monitoring are considered when determining the overall effectiveness of an Enterprise's D&I program. D&I Examiners performing ongoing monitoring must document their activities, findings, and conclusions in the D&I Examination Workprogram (D&I Workprogram). The D&I Workprogram documents procedures performed as well as meeting notes, report notes, and summary analysis memoranda.

Targeted examinations are a critical component of supervision and are undertaken as needed based on the level of supervisory concern. The purpose of targeted examinations is to allow for a deep or comprehensive assessment of the area under review. Targeted examinations are conducted in a manner consistent with examination workprograms and should be documented in the D&I Workprogram.

### **Examination Basics**

The SES is the central point of contact for communication between OMWI and the Enterprise, and is responsible for approving the planning, executing, and documenting of the Supervisory Strategy and the D&I examination. The SES is responsible for monitoring the Enterprises' D&I programs and apprising OMWI and the FHFA senior management of developments that have a bearing on supervisory matters. Planned examination activities must be consistent with an approved Supervisory Strategy, which outlines the examination scope, and properly documented in the D&I Workprogram, which details examination procedures.

### **Examination Process**

#### **Enterprises and CSS**

D&I examinations of the Enterprises and CSS rely on an understanding of each Enterprise and CSS, and the development of a Supervisory Strategy with an examination scope, plan, and

procedures tailored to the Enterprises' and CSS' D&I programs. FHFA's supervisory program emphasizes that the boards and management teams are responsible for promoting D&I through adequate strategies, policies, and procedures.

FHFA's Enterprise and CSS supervisory activities include an annual examination cycle that consists of ongoing monitoring and targeted examinations, conducted in accordance with the Supervisory Strategy approved by the SES. The foundation of the Supervisory Strategy is the baseline D&I assessment, which should be updated as needed. FHFA relies on these activities and related analyses to reach conclusions on the adequacy of the Enterprises' and CSS' D&I program strategies, policies, procedures, compliance, and internal control systems. FHFA issues an annual ROE that reflects FHFA's view of the Enterprises' and CSS's compliance with regulatory requirements.

### **FHLBank System**

FHFA's supervisory activities for the FHLBanks include an annual on-site examination, as well as periodic on-site visitations and off-site monitoring conducted in accordance with the Supervisory Strategy approved by the SES. FHFA relies on these activities to determine the overall adequacy and effectiveness of D&I program strategies, policies, procedures, and compliance with regulatory requirements.

FHFA's examination activities focus on each FHLBank's D&I program. D&I Examiners evaluate corporate governance, program management, internal controls, and other practices and form conclusions on the effectiveness of the D&I program. D&I Examiners also track significant strategic or operational changes that have taken place and progress on remediation plans since the previous examination and what is planned for the future. FHFA considers each FHLBank's board and senior management as the principal source for promoting the effectiveness of D&I through adequate strategies, policies, and procedures.

### **Examination Scope**

The examination process for all regulated entities begins with the preparation of a scope memorandum that details the analysis performed to determine the best scope of review for the examination. The SES reviews the Supervisory Strategy and assesses the state of the regulated entity's D&I program, considers emerging D&I issues, and identifies external factors that may impact the regulated entity's D&I program. The scope memoranda support the SES's decision to include or exclude review areas from the examination scope.

The examination scope memorandum includes an overview of the organization, an analysis of the organization's risks, and a schedule of examination work, including details regarding staff responsibilities for specific examination activities. The examination scope memorandum should summarize and update, as necessary, the institution overview section of the Supervisory Strategy.

To focus supervisory activities on areas of greatest risk to the regulated entity, the D&I Examiner should perform a risk analysis and document it in the examination scope memorandum to support their determination of the examination's scope. The risk analysis should highlight both the strengths and vulnerabilities of the institution and provide a foundation for determining the planned supervisory activities.

When preparing the scope memorandum, the D&I Examiner must consider the institution's overall risk environment and the risks associated with each of its significant business activities. Input provided by other FHFA divisions and offices should be considered to ensure that the assessment of risks is appropriately comprehensive.

### **Alert Package**

At least 30 days before the start of each annual examination of the regulated entities, the SES prepares and forwards an Alert Package to the CEO, OMWI Officer, and/or Regulatory Affairs staff of the regulated entity. The Alert Package serves as the Agency's official notification of the commencement of the examination and will include an Alert Letter detailing the examination on-site start and conclusion dates, the examination scope, examination plan, and a request to schedule an examination entrance meeting.

The Alert Package will also include a Document Request and OMWI Officer Questionnaire. The Document Request is a list of documents and reports requested from the regulated entity. The OMWI Officer Questionnaire is presented to the OMWI Officer and includes a list of questions designed to determine the existence of emerging issues, significant changes, or other D&I matters potentially causing increased supervisory concerns. Both documents must be submitted to the Agency prior to the start of the on-site review through a secure online portal known as the OMWI Examination Portal.

The Alert Letter includes a due date to deliver requested documents to FHFA and/or a request that the regulated entity make requested documents available for review at the regulated entity's offices on a specified date or dates. The regulated entity must ensure that no documents contain personally identifiable information.

### **Findings**

Examination findings include deficiencies related to, for example, risk management, risk exposure, or violations of laws, regulations, orders, or supervisory guidelines that affect, or may affect the future D&I program performance or condition of a regulated entity. FHFA uses three categories of examination findings: (1) Matters Requiring Attention, (2) Violations, and (3) Recommendations. MRAs are the most serious supervisory matters. Violations require action by the regulated entity to correct findings, if possible, of non-compliance with requirements and to change a program or practice to prevent recurrence. Recommendations identify policies, procedures, or practices that could be improved. [FHFA Advisory Bulletin 2017-01 \(Classification for Adverse Examination Findings\)](#) provides detailed instruction on examination findings, including definitions, remediation requirements, and FHFA follow-up activities.

### **Report of Examination**

FHFA issues a ROE to the regulated entity's board for each annual examination. The ROE communicates substantive examination conclusions, findings (when applicable), and the composite and component ratings. The ROE must also contain analysis that supports the conclusions, findings, and ratings. The regulated entity's board is expected to provide FHFA a written response to the ROE acknowledging their review of the ROE and affirming that corrective action is being taken, or will be taken, to resolve supervisory concerns. The board is ultimately responsible for ensuring that the conditions and practices that gave rise to examination findings are corrected in a timely manner.

## **D&I Supervisory Strategy**

The Supervisory Strategy identifies key areas of D&I risk and addresses the timeframe and the focus of supervision for the next year. The Supervisory Strategy should demonstrate that both the D&I supervisory concerns and deficiencies noted in the previous examination are being or will be addressed. The Supervisory Strategy provides specifics as to how the strategy will be addressed in the coming year. Consideration should be given to:

- Prioritizing supervisory resources on areas of higher risk;
- Including steps to determine compliance with supervisory action;
- Balancing mandated requirements with the objectives of the strategy; and
- Providing general logistical information (for example, a timetable of supervisory activities).

The SES or D&I examiner should develop the Supervisory Strategy within 90 days after the issuance of each ROE and update the strategy during the year when necessary (e.g., based on significant changes in a regulated entity's D&I). The Supervisory Strategy summarizes the supervisory activities to be conducted by the OMWI examination team and is informed by periodic D&I assessments, which identify the D&I risk profile and trends and any significant concerns and supervisory issues.

When preparing the Supervisory Strategy, the SES should consider the work and input of the FHFA personnel, including OMWI Policy and Data Analysts, safety and soundness examination staff, affordable housing specialists, and attorneys. The SES and D&I examiner will benefit from the perspectives of other FHFA personnel and an enhanced understanding of risk-related issues and projects that may intersect with D&I examination work.

Each Supervisory Strategy should include an institution overview. The institution overview should contain a concise executive summary that describes the institution's present D&I program condition and its current and prospective D&I risk profile, and highlights key emerging issues, changes in business activities, and past examination findings. Information that may be valuable to include in the overview includes:

- A brief description of the institution's organizational structure;
- A summary of the institution's current and future D&I business strategies;
- Key D&I issues for the institution, either from external or internal factors;
- An overview of management;
- A summary of the regulated entity's D&I program condition and trends; and
- A description of the internal and external audit functions.

## **PART III**

### **Evaluating D&I Programs**

#### **Introduction**

The FHFA's D&I Examination Program is used as a tool for shaping a future financial services industry that values diversity and ensures inclusion to foster innovation, promote growth, and drive sustainability. The Examinations section of the Supervision branch of OMWI oversees and examines the D&I programs of regulated entities to ensure that the entities execute strategies and goals that comply with the letter and spirit of HERA and the MWI Rule. OMWI D&I examination activities include annual on-site examinations and periodic on-site visitations at the FHLBs and OF, and ongoing monitoring and targeted examinations at the Enterprises focused on workforce, procurement, and finance activities, and at CSS focused on workforce and procurement.

Minimum requirements for D&I programs of all regulated entities are set forth in the MWI Rule, which implements Section 1116 of HERA, Section 1216 of FIRREA, and Executive Order 11478, all as may be amended.

In assessing the D&I programs of regulated entities, D&I Examiners review and provide conclusions and qualitative ratings for the following components:

- *Board Diversity*
- *Board Oversight*
- *Enterprise Risk Management*
- *Strategic Planning*
- *Organizational Framework*
- *Workforce*
- *Procurement*
- *Finance*
- *Data Management*
- *Compliance*
- *Internal Audit*

The examiner must perform examination procedures sufficient in coverage to document the basis for the examiner's conclusions on the adequacy and effectiveness of the regulated entities' D&I programs. Detailed examination procedures are included for each component below.

#### **Board Diversity**

A diverse representation of leaders at the board level ensures a broad representation of perspective and accompanies the creation of a diverse and inclusive workforce. As indicated by the MWI Rule, regulated entities are encouraged to consider the diversity of the board in nominating or soliciting nominees for positions on the board of each regulated entity.

As further detailed in [FHFA Advisory Bulletin 2020-02 \(\*Board Diversity\*\)](#), an entity's efforts to develop, maintain, and sustain a diverse board should be a combination of seeking diverse

representation on, and providing support to, the board to meet its D&I oversight responsibilities. This requires the board to articulate its role in performing D&I oversight. At the same time, promoting diversity of the board itself should be encouraged by the board through communication of the entity's obligations under law and regulation and the value of fostering opportunities for diverse candidates for board service to assist in this oversight responsibility. Boards may seek to increase director diversity by requiring the entity to communicate to members its goals of identifying potential diverse candidates. Boards may engage search firms for identifying potential independent director nominees, as appropriate, and take such other steps that increase the likelihood and probability of success in promoting diversity.

Entities should also routinely review and assess board oversight by assessing board competencies. Each entity may conduct an annual assessment of board members' skills and experience as a whole and may determine whether the capabilities of the board would be enhanced through the addition of individuals with particular skills and experience. Board D&I experience and knowledge should be included and considered in any such board assessments. The board or its corporate governance committee should oversee the implementation of recommendations arising from board self-assessments. As part of its oversight duties, the corporate governance committee also may identify skills and expertise gaps among the members of the board and may recommend that the entity indicate that it seeks individuals with a combination of those and other skills and experience as nominees for directorship positions. In addition, the board should implement training for existing board members to develop or enhance their ability to meet their obligations to oversee the entity's D&I obligation.

Board Diversity examination procedures are detailed below.

- 1) Assess the board's effort to consider and promote board diversity.
  - a) Has the entity conducted an annual assessment of board skills and experience, including an assessment of board D&I experience and knowledge?
    - i. Did the assessment include a skills and expertise gap analysis?
    - ii. If D&I skills or expertise gaps were identified, how were they addressed (e.g., internal training, board recruitment efforts including external searches)?
- 2) Has the board communicated its commitment to fostering opportunities for diverse representation on the board?
  - a) Has the board communicated to members its goal of identifying diverse candidates?
  - b) Has the board engaged a search firm for identifying potential independent director nominees?
- 3) Did the board implement training or take other measures to enhance their ability to meet their responsibility to oversee the entity's D&I program?

## **Board Oversight**

The board is responsible for establishing an appropriate “tone at the top” that promotes a diverse culture at the regulated entity. The board or a designated board committee is responsible for approving the D&I program, including the OMWI function, and ensuring that adequate resources are available to effectively execute the D&I program. The board or a designated board committee should maintain awareness and understanding of the strategies employed across the regulated entity to manage D&I. The board or a designated board committee is responsible for overseeing management’s efforts to maintain diversity at all levels of the regulated entity. Specific board or designated board committee responsibilities include:

- Ensuring the OMWI Officer is at a sufficiently senior level in the organization, as contemplated by Section 1116 of HERA, to provide the appropriate stature for the position and support a strong diversity culture;
- Confirming that diversity goals align with the organization’s mission;
- Approving organization-wide diversity goals and performance measurements; and
- Reviewing reports from the OMWI Officer and other sources on the overall diversity status and inclusion activities.

See [the Board of Directors and Senior Management Examination Module](#) for additional information.

Board Oversight examination procedures are detailed below.

- 1) Approving strategies and policies that promote D&I and support compliance with laws and regulations and holding management accountable for D&I program results or conditions under its purview. Assess board oversight of D&I.
  - a) Has the board established and approved quantifiable Enterprise-wide diversity goals and performance measurements?
  - b) Does the board or a designated board committee review and approve D&I policies on a regular basis?
  - c) Does the board or a designated board committee review and discuss regular reports from the OMWI Officer and other sources on the overall D&I activities of the entity?
  - d) Is the D&I information reported to the board designated committee supplied with meaningful context?
    1. Are results presented along with strategic plan benchmarks and quantitative goals?
    2. Do reports include trend analyses?
- 2) Evaluate the management succession plan.
  - a) Did the process include an evaluation of an individual’s current and potential management skills?
  - b) Does the plan address developing the necessary skills needed for new responsibilities?
- 3) Evaluate the board’s process for assessing the OMWI Officer’s performance.
  - a) Does the board hold the OMWI Officer accountable for achieving desired D&I results?

- 4) Determine the adequacy of processes in place to encourage the consideration of diversity in nominating or soliciting nominees for positions on the board consistent with the provisions of 12 C.F.R 1261.9.

## **Enterprise Risk Management**

Enterprise Risk Management (ERM) is a risk management concept that has evolved into an essential element of a regulated entity's overall risk management practices. It is critical to an assessment of current and potential risks and the establishment of the regulated entity's risk tolerance. ERM's primary objective is to identify, measure, monitor, and report on risk exposures on an ongoing basis. Regulated entities should ensure the full integration of the D&I program into the ERM framework. ERM must perform a written Risk Assessment (RA) at least annually that is reasonably designed to identify and evaluate all material D&I risks that could adversely affect the achievement of the regulated entity's D&I program performance objectives and compliance requirements. When performing periodic RAs, regulated entities must consider entity-wide D&I risks. The regulated entity must perform an assessment of risk associated with the OMWI and demonstrate formal consideration of D&I risk exposures and mitigating controls across all business and activities.

See the module on [Enterprise Risk Management](#) for additional information.

ERM examination procedures are detailed below.

- 1) Assess the regulated entity's RA and related process. Determine the following:
  - a) Does the RA include or consider D&I on an entity-wide basis?
  - b) Is D&I incorporated into relevant business unit RA processes?
- 2) Is the D&I RA process conducted by the ERM or another function (e.g., is the RA performed by business units and compiled by internal audit (IA))?
  - a) If not handled by ERM, is the D&I RA process nevertheless adequate? Explain key features, including scope, comprehensiveness, conclusions, etc.
- 3) Does a review of ERM reporting indicate D&I risk is treated similarly to other risks commonly associated with ERM oversight (credit, operations, market, etc.)?
- 4) Are D&I risk and related monitoring metrics included in regular board reporting, similar to other risks routinely monitored by ERM?

## **Strategic Planning**

Building organizational commitment to D&I requires that it become a normal way of doing business. Accordingly, a regulated entity may integrate D&I strategic planning into its comprehensive organizational planning process or may develop the plan on a standalone basis. Each regulated entity should focus at the outset of the process, as well as throughout the plan's implementation, on how integrating D&I impacts the organization's operations, business, and activities.

An effective strategic plan lays out a comprehensive, integrated, and deliberate path for promoting D&I throughout an organization. The strategic planning process helps an

organization establish a foundation for addressing the challenges and opportunities it faces with respect to D&I. Organizational leaders set the tone in integrating D&I into the business and operations. To demonstrate their support of and commitment to D&I, senior management should participate in developing and executing the D&I strategic plan. The D&I strategic plan should be presented to the board for its review, input, and approval. Oversight by the board assists in creating the conditions for success by ensuring alignment with the overall strategic and operational direction of the regulated entity.

An effective D&I strategic planning process includes the following elements:

### **Mission, Strategy, Vision**

A regulated entity articulates what D&I means to the organization before developing a strategic plan. Definitions for D&I can vary due to entity size, geographic location, and scope of business activities. A regulated entity defines those terms relative to its specific environment. A D&I strategic plan establishes a framework within which the vision, mission, and strategy are actionable and provides concrete direction for the regulated entity. A D&I strategic plan also establishes mechanisms to measure the regulated entity's activities against the vision, mission, strategy, and objectives.

### **Needs Assessment**

A regulated entity conducts a D&I needs assessment to identify any gaps or deficiencies in its diversity profile. The regulated entity's assessment will vary depending on its location, demographics, resources, and operating environment. Several resources and tools are available to help a regulated entity identify and analyze its needs with respect to D&I. For example, the U.S. Census Bureau, the U.S. Equal Employment Opportunity Commission, state demographic/population data centers, and several professional and trade organizations have demographic data and other information that a regulated entity may use to conduct an effective D&I assessment. The regulated entity's D&I assessment also consists of an evaluation and/or survey of its stakeholders to identify strengths, weaknesses, critical issues, opportunities, and threats concerning or affecting the future of the organization and its business and operations as they relate to D&I. The regulated entity's stakeholders may include, but are not limited to, the community or communities it serves, its members, customers, staff, and its board.

### **D&I Strategic Goals and Objectives**

A regulated entity's D&I strategic plan should establish goals and objectives that demonstrate its commitment to D&I within the organization over a three-year period. A goal is defined as the desired result that the regulated entity envisions and commits to achieving. Objectives set a quantifiable standard for each goal. The goal setting involves establishing, at a minimum, specific, measurable, attainable, and realistic objectives. The regulated entity also may establish specific timeframes within which to complete each objective. Goals and objectives may be prioritized as part of the strategic planning process.

### **Action Plans**

A regulated entity develops action plans that identify measurable tasks necessary to achieve its D&I goals and objectives. Action plans integrate all the strategies developed throughout the planning process and are used to organize and prioritize the tasks necessary to meet the goals and objectives underlying the stated mission. As a regulated entity moves to implement its D&I strategic plan, the day-to-day responsibility for implementing the plan shifts to the business functions throughout the organization. The components of an action plan necessarily will vary depending on the specific strategic goals and objectives, the size of the organization, and the availability of resources.

### **Communication Plan**

The D&I strategic goals are communicated by the senior leadership of the regulated entity, ensuring that all staff have a clear understanding of the regulated entity's D&I goals and objectives and their respective roles in achieving them. Reaching the D&I goals requires the collaboration and support of staff throughout the organization — from the board and senior management to managers and employees of all business units and operational divisions and offices.

### **Adequate Resources**

The leadership and management teams should ensure that the OMWI function within the regulated entity has adequate human and capital resources to facilitate achievement of the D&I strategic goals and objectives within the timeframes established in the action plans.

### **Operational Plan Framework**

The regulated entity's OMWI function identifies and develops the structural, functional, and procedural components essential to the effective delivery of D&I programs and services. This includes developing, implementing, and communicating clear functional definitions, defined organizational structures, documented processes and procedures, and delineated roles and responsibilities. These elements will facilitate the regulated entity's steps to meet its D&I priorities. The operational framework should also include timelines for submitting the strategic plan and for updating and revising the plan on a schedule and as developments warrant.

### **Accountability**

The foundation for building a culture of accountability is demonstrated by having a clear statement from the board or the CEO stating expectations, goals, and outcomes for the D&I strategy. A well-developed strategic plan will help advance a sustainable and successful D&I strategy by holding management accountable for integrating diversity within all business and operational functions, and for achieving D&I goals and objectives.

See the [Strategic Planning Module](#) for additional information.

Strategic Planning examination procedures are detailed below.

- 1) Evaluate the components of the D&I strategic plan.
  - a) Determine the extent to which the regulated entity's D&I or OMWI strategic plan is a

stand-alone document or part of the comprehensive corporate strategic plan.

- b) Does the D&I strategic plan promote diversity and ensure inclusion at the regulated entity, including defining D&I for the regulated entity?
  - c) Did the regulated entity's OMWI perform a needs assessment prior to developing the D&I strategic plan?
  - d) Assess whether the business case included in the D&I strategic plan is sufficient to explain key assumptions included in the strategic plan. In particular, review the narrative regarding strategic initiatives or changes in strategy.
  - e) Review the adequacy of the regulated entity's budget to fund its D&I.
  - f) Does the strategic plan outline specific quantifiable D&I strategic goals, objectives, and realistic projections for advancing D&I at the regulated entity?
  - g) Review the adequacy of the D&I strategic plan and consistency with the regulated entity's stated mission and goals.
  - h) Assess whether the strategic plan includes sufficient detail in depth and breadth to allow senior management and the board or designated board committee to benchmark the progress of the regulated entity's OMWI function and D&I program relative to the strategic plan.
- 2) Evaluate the action plans supporting the D&I strategic plan.
- a) Are action plans aligned with the D&I strategic plan?
  - b) Are adequate resources allocated to achieve the desired plan outcomes?
  - c) Does the regulated entity have a communication plan detailing the strategies and vehicles to be used to inform stakeholders of the regulated entity's commitment to D&I and its D&I strategic goals and objectives?
- 3) Assess accountability and the operational framework supporting the strategic plan.
- a) Does the regulated entity have a framework to measure, monitor, and report on activities that support the D&I strategic plan?
  - b) Does the regulated entity have a policy statement or directive addressing accountability for the implementation of the D&I strategic plan?

## **Organizational Framework**

In evaluating the organizational framework D&I Examiners are assessing the efficacy of the organizational design of a regulated entity's D&I program. Organizational environments that produce adequate outcomes relative to institutional and regulatory objectives include and achieve senior management goals as well the following required regulatory elements.

### **The D&I Program**

The D&I program should define the roles and responsibilities of key personnel and the entity-wide functions into which D&I is integrated. These roles and responsibilities should support and promote a culture across the regulated entity that effectively identifies and manages diversity. The OMWI function should be fully integrated, in balance with financially safe and sound business practices, into the regulated entity's overall governance structure. The roles

and responsibilities should be designed to minimize the potential for conflicts of interest, ensuring the separation of operational and oversight responsibilities.

The D&I program, at a minimum, should include the following:

- A designated OMWI Officer;
- D&I policies and procedures;
- An operational framework;
- Incorporation of D&I and its associated principles, as a business discipline, into business activities;
- Promotion/facilitation of diversity in nominating or soliciting, and electing nominees for board positions;
- Promotion/facilitation of diversity in workforce and supplier activities including:
  - Expectations/requirements for suppliers to commit to the best practices of D&I;
  - Identification of contract types that are considered exempt under §1223.3(b) of HERA;
- Monitoring and reporting D&I program status for the regulated entity including:
  - Identification of D&I analysis and measurement methodologies;
  - Alignment with the regulated entity's D&I policy and objectives; and
  - Communication channels among and across the board, senior management, and the business units regarding D&I.

### Senior Management

Senior management is also responsible for fostering a tone that promotes diversity across the regulated entity. The highest levels of management are responsible for implementing board-approved strategies and policies and ensuring effective management of the D&I program.

Senior management is responsible for:

- Ensuring that the diversity policy and standards are consistently applied across the regulated entity's business lines, units, and operations; and
- Allocating sufficient resources for the D&I program. Specific senior management responsibilities include:
  - Reviewing annually (and updating, as appropriate) D&I policies, and submitting policies to the board, or a designated committee, for approval;
  - Ensuring all staff receive appropriate training and tools to implement an effective D&I program;
  - Managing board-approved D&I program performance goals;
  - Approving the methodologies used to identify, assess, and measure diversity performance and taking appropriate action(s) in light of the performance results;
  - Reviewing reports on the level and composition of diversity for decision-making and oversight; and
  - Recommending budgets that allocate adequate resources.

### OMWI Officer

The OMWI Officer is responsible for the day-to-day implementation (including the operation, maintenance and continuous improvement) of the OMWI function. The OMWI Officer should be independent of the business lines and report directly to the CEO, Chief Operating Officer (COO), or an equivalent. The OMWI Officer should have sufficient authority within the institution to bring critical D&I issues to the attention of the board, senior management, and business line staffs, through a defined process. The OMWI Officer should report on the D&I program to the board or an appropriate committee of the board, periodically or as requested by the board or a board committee. The OMWI Officer should be a part of the senior management team.

Specific responsibilities would generally include:

- Serving as a principal contributor to the implementation of the regulated entity's D&I strategic plan;
- Facilitating the development of corporate-wide and specific business unit D&I goals;
- Implementing operational strategies for identifying, assessing, measuring, monitoring, and reporting diversity across the business units; and
- Recommending corrective actions to address issues or official complaints in the workforce and/or supplier programs and implementing corrective actions.

#### Business Unit Management and Staff Accountability

Business unit management is responsible for demonstrating a commitment to an effective D&I program by implementing D&I policies and procedures. They are responsible for:

- Taking actions that are consistent with the articulated goals;
- Producing reliable management reports; and
- Reporting D&I performance results.

#### OMWI Operational Infrastructure

The D&I program and the OMWI function should be supported with a sound operational environment including, but not limited to, the appropriate systems, security, and tools. The daily operations of the D&I program and the OMWI function require access to sensitive data, some of which necessitates specific data handling procedures as mandated by federal law. This places a responsibility on business unit management to develop and maintain the appropriate business processes. Business unit management also must establish a sound internal control framework supporting the D&I program and OMWI functional processes, and any required tools including, but not limited to, end-user computing solutions, databases, and web-based applications.

Organizational Framework examination procedures are detailed below.

- 1) Review the regulated entity's D&I program and embedded framework to determine if the major components of the framework have been established and implemented. If major components of the framework have not been established or implemented, determine why. Major components of the D&I framework should include the following:
  - a) OMWI independence to perform its function and oversight responsibilities;
  - b) Adequately staffed OMWI office with sufficient resources and sufficient authority within the organization;

- c) D&I training for the organization, including the board;
  - d) Comprehensive D&I policy approved by the board or designated board committee;
  - e) Detailed operating procedures;
  - f) Metrics and quantifiable objectives;
  - g) Detailed and complete board and management reporting; and
  - h) Independent assessments by IA and Compliance.
- 2) Review the current OMWI organizational chart and evaluate the effectiveness of the organization by considering the reporting lines for key OMWI personnel.
    - a) Have significant management, personnel, or organizational changes occurred within the OMWI function?
    - b) To whom does the OMWI Officer report?
    - c) Is the reporting structure between the OMWI function and business units clearly described and defined?
  - 3) Evaluate the resources allocated to OMWI.
    - a) Is staffing adequate? Consider staffing levels and capacity, experience, and expertise.
    - b) Does OMWI personnel possess the knowledge, skills, and abilities to effectively engage with the business lines on D&I related matters? Consider seniority and stature within the entity.
  - 4) Evaluate the D&I policies and procedures.
    - a) Has the entity established adequate D&I policies that have been approved by the board or relevant committee?
    - b) Do the policies require regular review and updating to reflect changes in the regulated entity's D&I program?
    - c) Do the policies assign responsibility and authority for the D&I program and OMWI function?
    - d) Do the policies and procedures define the roles and responsibilities of key officers and personnel related to D&I?
    - e) Do the policies establish communication channels between the OMWI Office and the board, senior management, and the business units regarding D&I performance?
  - 5) Evaluate the OMWI function's operational framework.
    - a) Does the regulated entity have documented business processes for D&I operational activities?
    - b) Does the regulated entity establish and maintain a sound internal control framework to support D&I activities including, but not limited to, internal reporting, external reporting, and data analysis?
  - 6) If applicable, assess the effectiveness of the diversity advisory council to provide support and accountability.
  - 7) Assess systems, processes, and internal controls of the D&I program for adequacy

and accuracy. Review business process documentation and internal control testing results.

## **Workforce D&I**

The workforce D&I program should support and encourage each business group in the effort to identify and include diverse candidates in their hiring and promotion activities. Workforce D&I should be aligned with all key areas of the organization and integrated into the overall D&I management strategy.

The regulated entity should demonstrate leadership and commitment to an effective workforce D&I program by:

- Implementing D&I policies and procedures;
- Defining roles and responsibilities for carrying out the workforce D&I program;
- Establishing a workforce D&I plan;
- Producing workforce benchmarks and objectives; and
- Reporting workforce performance results.

The regulated entity should develop a workforce D&I program that will promote an inclusive work environment that avoids discrimination against any employee or applicant on the basis of race, color, religion, sex, national origin, disability status, genetic information, age, sexual orientation, gender identity, or status as a parent.

The program should:

- Define measures of success;
- Identify key personnel dedicated to workforce diversity and their duties, responsibilities, and technical expertise to ensure resources are effectively deployed to execute D&I goals;
- Establish procedures for identifying diverse candidates;
- Include procedures and metrics to measure and monitor internal D&I efforts as well as external trends in workforce D&I;
- Identify workforce D&I training for managerial staff to provide the appropriate education that enables business units to implement D&I in all recruiting, hiring, and promotion activities; and
- Where applicable, establish annual performance goals for the organization and each business unit that align with the D&I strategic plan to ensure management is accountable for ensuring D&I plans are in place in their respective businesses, and for measuring progress against these plans.

### **Workforce Diversity Roles and Responsibilities**

The regulated entity should develop, implement, and maintain a workforce D&I program that is fully integrated into and across all levels of the organization. The program should:

- Have sufficient stature within the organization that allows critical D&I issues to be raised by the team to the board, senior management, and business line staff through a defined process;
- Have sufficient dedicated staff and resources to promote and oversee the integration of D&I in the business lines, and design activities that promote and foster D&I throughout the organization;
- Provide for training and education to ensure that business unit managers and supervisors in decision-making positions throughout the organization understand workforce D&I principles; and
- Establish measurements that are linked to departmental goals and objectives. Metrics should be included in the annual performance goals for each business unit/division of the organization.

### Workforce D&I Plan

The regulated entity should establish a workforce D&I plan that has documented policies and processes. The workforce diversity plan should include:

- Building partnerships or alliances with academic institutions and organizations that promote workforce D&I, including non-profit organizations and the career placement offices at select graduate, professional, and undergraduate schools;
- Participating in various conferences and recruiting fairs sponsored by associations representing diverse populations;
- Incorporating a succession planning system for critical occupations that includes an ongoing, strategic process for identifying and developing a diverse pool of talent for the organization's potential future leaders;
- Promoting formal mentoring programs for personnel at all levels with an emphasis on aspiring senior-level employees. The mentoring process should cover the tracking, monitoring and mentoring of candidates from underrepresented groups positioned for senior assignments;
- Communicating goals for the D&I recruiting programs (DRP) throughout the entire organization. Specifically, the plan should outline the strategic goals and objectives of the overall recruiting program, and design and implement the DRP to align with, and support, the strategic plan;
- Maintaining a communication strategy that reinforces the workplace D&I commitment to all employees; and
- The communication strategy should incorporate action plans and develop organization-wide assessment and evaluation systems to monitor diversity progress throughout the regulated entity.

Workforce D&I examination procedures are detailed below.

- 1) Evaluate the policies and procedures to promote diversity and ensure inclusion within the regulated entity's workforce.
  - a) Determine the adequacy of the policies, procedures, and processes governing the employee lifecycle, including outreach and recruitment, onboarding, ongoing support, performance management, employee training and development, retention, and management and staff pipelines.

- 2) Evaluate the workforce D&I program.
  - a) Determine the adequacy of metrics to measure and monitor the regulated entity's workforce diversity levels and trends. Does the program measure and monitor workforce D&I levels and trends both internally and externally?
  - b) Evaluate the regulated entity's OMWI training programs to address the continuing professional development and competencies of OMWI personnel.
  - c) Does the program define and provide for workforce diversity training for all management and staff to implement D&I in all recruiting, hiring, and promotion activities?
  - d) Does the program align with the regulated entity's D&I strategic plan? Does the program establish that management performance may be measured by the regulated entity's progress in accomplishing the workforce D&I plan objectives?
  - e) Determine the effectiveness of the regulated entity's staff recruitment program. Specifically, the program should outline the strategic goals and objectives of the overall recruitment program that are related to D&I.
  - f) Evaluate the regulated entity's identification and development of a diverse talent pool. The program should include talent management plans, assigned mentors, an evaluation of the skills required for promotions, and rotational assignments.
- 3) Assess workforce diversity roles and responsibilities.
  - a) Does OMWI have sufficient authority within the regulated entity to bring critical D&I issues to the attention of the board, senior management, and business line staff through a defined process?
  - b) Does OMWI have appropriate staff and resources to promote diversity and assess the inclusion of workforce diversity in the business lines, and also design activities that promote and foster workforce diversity throughout the organization?
  - c) Evaluate OMWI's core D&I competencies including, communication skills, influence skills, analytical skills, and change management respectively with the following questions.
    1. Does OMWI establish open and honest communication across the organization using and applying multiple methods and styles?
    2. Does OMWI gain support and commitment from others to take action toward developing and implementing the business strategy?
    3. Does OMWI gather and evaluate information as a framework for examining issues?
    4. Does OMWI anticipate the change in the business culture and react with the understanding, tools, and techniques to make change seamless and effortless?
    5. Does OMWI exhibit the ability to understand and apply information as a critical business and individual success factor that contributes to the business strategy?
- 4) Review the workforce D&I plan.
  - a) Does the plan address the establishment and/or maintenance of partnerships with academic institutions and organizations that promote workforce diversity?
  - b) Does the plan address a succession planning system for mission-critical positions

that includes an ongoing process for identifying and developing a diverse pool of talent for the organization?

- 5) Evaluate workforce D&I program performance measures and benchmarks.
  - a) Has management established measurements that are linked to organizational goals and objectives?
  - b) Does the program assess the processes used by the business units to comply with quantifiable workforce D&I goals?

## **Procurement**

In evaluating procurement, D&I Examiners are reviewing the adequacy and effectiveness of the regulated entity's supplier diversity program. OMWI is charged with seeking increased participation of MWDOBs in the programs and contracts of regulated entities as well as making evaluations to determine if their contractors and subcontractors have made good faith efforts to include minorities and women in their workforce.

The regulated entity should develop a supplier diversity component as part of its procurement policies and procedures to promote opportunities for MWDOBs to compete for procurement opportunities.

Procurement policies and procedures regarding supplier diversity should, at a minimum, address:

- Definition and identification of MWDOBs that supply goods and services, which include services of all kinds (e.g., information technology, legal, administrative services, brokers or dealers);
- Identification methods and strategies supporting diverse suppliers;
- Methodology for conducting due diligence in selecting suppliers, including consideration of, and engagement with, potential MWDOBs;
- Metrics to measure and monitor the supplier diversity levels and trends;
- Diversity training for all business unit procurement activities; and
- Management reporting on the supplier diversity components of procurement policies, including competitive bidding, contract reviews, and outreach activities.

### **Supplier Diversity Program**

The supplier diversity program should be responsible for supporting each business group in its effort to identify and include diverse suppliers in their purchasing activities. Supplier diversity should be aligned with all key areas of the organization and integrated into the overall diversity management strategy.

The regulated entity should demonstrate a commitment to an effective supplier diversity program by:

- Implementing supplier diversity policies and procedures;
- Defining roles and responsibilities for carrying out the supplier diversity program;
- Executing a supplier diversity development plan;

- Producing performance measures and benchmarks; and
- Collecting performance results.

The regulated entity should maintain a supplier diversity program that is fully integrated into the entire organization. The supplier diversity program should be appropriately integrated across all levels of the organization, as well as into new business initiatives, products, activities, processes, and systems.

The supplier diversity program should:

- Have sufficient authority within the institution to bring critical supplier diversity issues to the attention of the board or designated board committee or senior management;
- Maintain a certification program to ensure that the bidding opportunities reach eligible MWDOBs including, but not limited to, law firms and other suppliers of professional and consulting services;
- Provide training and education to ensure that individuals in decision-making positions throughout the organization understand supplier diversity principles and commitment; and
- Establish measurements that are linked to strategic goals and objectives. Metrics should be included in the annual performance goals for business unit(s)/division(s) of the organization.

### Development Plan

The supplier diversity development plan for the entity should reflect the corporate-wide commitment to supplier diversity. The regulated entity should develop a plan to conduct external outreach activities seeking MWDOBs through active involvement with national and regional minority business development organizations, and participation in procurement events. MWDOB opportunities should be promoted on an ongoing basis, and a method to measure results should be developed.

The supplier diversity development plan should, at a minimum:

- Incorporate mentoring; training and education; supplier development councils; networking; and capacity-building activities;
- Identify the process to reach supplier diversity goals with specific timetables, establish responsibilities for achieving those goals, and monitor and track results on an ongoing basis; and
- Define activities for outreach in contracting opportunities to MWDOBs including, but not limited to, information technology and administrative service providers, and law firms.

Procurement examination procedures are detailed below.

- 1) Review the regulated entity's MWDOB certification program. Assess whether the supplier diversity certification program is effective at providing opportunities for eligible MWDOBs.
- 2) Evaluate the regulated entity's periodic monitoring of the MWDOB relationship(s).
  - a) Does the periodic monitoring occur timely and on a regular basis?

- b) Does the periodic monitoring consistently include the review of changes in risk levels?
  - c) Does the periodic monitoring include the review of conformance to the contract, including the service-level agreement, audit reports, and other required reporting addressing business continuity, security, and other facets of a MWDOB relationship?
- 3) Evaluate how supplier diversity is addressed in the procurement policy.
- a) Does the policy provide a clear definition of MWDOBs?
  - b) Does the policy establish procedures requiring the publication of contracting opportunities to encourage MWDOBs to submit offers or bid for contracts?
  - c) Does the policy require procedures for managing the engagement with MWDOBs?
  - d) Does the procurement policy define contract exemptions?
  - e) Does the policy identify the thresholds, exceptions, and limitations considered when determining exemptions?
  - f) Does the policy describe the rationale and need for the thresholds, exceptions, or limitations?
  - g) Does the policy address the criteria used to implement the thresholds, exceptions, or limitations?
  - h) Does the policy consider any negative impact the implementation of thresholds, exceptions, and limitations would have on contracting opportunities for MWDOBs?
  - i) Does the policy include a process for exemptions review and modifications?
  - j) Does the policy provide an on-going process to identify new MWDOBs?
  - k) Evaluate the process for giving consideration to MWDOBs when reviewing and evaluating contract proposals and hiring service providers as required under section 1223.2 (c).
- 4) Assess procedures and practices performed to meet the supplier diversity-related policies.
- a) Does the regulated entity define processes for conducting due diligence in consideration of MWDOBs?
  - b) Does the policy require metrics to measure the supplier diversity levels and trends for both internal and external suppliers?
  - c) Does the policy require supplier diversity training for all business units to ensure that staff has the appropriate tools to effectively implement D&I in all procurement and contracting activities?
- 5) Assess contracting processes for the solicitation, identification, and selection of professional services and consulting firms including, but not limited to, administrative services, human resources, facilities, legal, accounting, and information technology.
- a) Are formal processes in place to demonstrate consideration of MWDOBs in procuring professional services?
- 6) Review supplier diversity roles and responsibilities.
- a) Does OMWI and procurement management have sufficient authority within the institution to bring critical supplier diversity issues to the attention of the board, senior management, and business line staff through a defined process?

- b) Does supplier diversity program management have appropriate resources assigned to support the program?
- 7) Evaluate the supplier diversity development plan.
    - a) Determine whether supplier diversity development activities include goals with specific timetables, responsibilities for achieving the goals, ongoing measurement and monitoring, and supplier performance reviews.
    - b) Does the development plan include key activities such as: mentoring; training and education for MWDOBs; supplier development councils; networking; capacity-building activities; and an awards and recognition program within the regulated entity?
    - c) Does the development plan identify the process to reach supplier diversity goals with specific timetables, establish responsibilities for achieving those goals, and provide a means to monitor and track results on an ongoing basis?
  - 8) Assess supplier diversity performance measures and benchmarks.
    - a) Determine the adequacy of metrics used to measure and monitor supplier diversity levels and trends.
    - b) Are there quantifiable goals, metrics, and performance measures that allow for regular benchmarking of actual performance versus planned projections?
    - c) Does the program evaluate and assess supplier diversity with data on contract spending, percentage spend with MWDOBs, percentage of contracts with MWDOBs subcontractors, and contractor workforce demographics?

## **Finance**

The promotion of a diverse and inclusive corporate culture extends to all business activities of regulated entities, including the consideration and utilization of MWDOBs in financial activities.

Senior management should ensure that D&I goals as identified in the organization's strategic plan are reinforced by programs, policies, and processes within the organization's finance environment. Regulated entities are responsible for ensuring that the integration of D&I into finance-related activities of the organization appropriately complies with the MWI Rule as set forth in 12 C.F.R.1223. Effective policies and practices should appropriately establish:

- Responsibility and accountability for adherence to 12 C.F.R. 1223 and organizational D&I finance diversity goals;
- Protocols for whereby adherence is achieved;
- A reporting structure to monitor regulatory compliance;
- Procedures for corrective action in the event of noncompliance with internal policies and/or regulatory guidance; and
- A transparent and appropriately documented evaluative and decision-making environment as it relates to MWDOB participation in finance-related activities.

Appropriate oversight to ensure compliance should be evident in policies and risk management practices that address:

- Credit or lending policies and procedures;
- Issuance or guarantee of debt, equity, and MBS;
- Purchasing, sale or servicing of single-family, multifamily mortgage loans or any other capital markets activities; and
- Execution of Community Investment and Affordable Housing Programs.

Finance examination procedures are detailed below.

- 1) Assess processes for ensuring the consideration and utilization of disabled-owned brokers and dealers in finance activities, including but not limited to, issuing debt, equity, or securities; selling and managing assets; and making equity investments.
  - a) Do policies and procedures extend activities beyond outreach?
  - b) Does the regulated entity initiate financial transactions with MWDOBs?
  - c) Does the regulated entity provide equal consideration to MWDOBs in all segments of its financial transactions, including the higher margin transactions?
  - d) Has the regulated entity adopted metrics that measure progress in all segments of financial transactions?
  - e) Has the regulated entity performed analysis and documented where opportunities for MWDOBs do and do not exist?
  - f) Are any financial transactions classified as exempt from including or considering MWDOBs? If so, evaluate reasons for validity.

### Credit Risk

#### *Policies and Procedures*

- 1) Assess credit risk management policies and procedures implemented to ensure alignment with 12 C.F.R. 1223.
  - a) Has the regulated entity performed an assessment of policies to ensure alignment with 12 C.F.R. 1223? If so, what updates or revisions did the regulated entity identify that either meet or were required to ensure alignment with 12 C.F.R. 1223?
- 2) Review departmental policies and procedures relevant to compliance with 12 C.F.R. 1223.
  - a) Are policies and procedures current, sufficiently detailed, and consistent with the requirements identified in 12 C.F.R. 1223?
  - b) Do policies and procedures clearly identify and define responsibility for adhering to established parameters?
  - c) Are ongoing reporting requirements established and reasonable to adequately monitor compliance with 12 C.F.R. 1223 across the regulated entity?
- 3) Review the credit-related policies and procedures that apply to MWDOBs. Evaluate how the policies establish responsibility and accountability for various activities. Consider:
  - a) Approval process;
  - b) Risk-rating process; and

- c) Exception and over-limit process.
- 4) Evaluate the policy's suitability to any planned changes in credit activities. (For example, introducing a new product.)
  - a) Is the potential for MWDOB participation included as part of an assessment for new products?
- 5) Evaluate and assess the adherence to remedies or corrective actions for MWDOBs' noncompliance with credit risk policies.

#### *Risk Management Practices*

- 1) Evaluate the chief risk officer (CRO), or equivalent, and the role relevant to the regulated entity's D&I program.
- 2) Evaluate the independence, scope of responsibility, and objectivity of business units and/or personnel with D&I program-related credit risk management responsibilities.
  - a) Do the credit risk management functions have the authority to enforce their D&I related policies and procedures across the regulated entity?

#### *Exemptions*

- 1) Have any credit-related business activities been identified as exemptions? If applicable, for any exemptions identified, does the regulated entity document:
  - a) The rationale and need for the thresholds, exceptions, or limitations;
  - b) The criteria used to implement the thresholds, exceptions, or limitations; and
  - c) Any negative or adverse impact the implementation of the thresholds, exceptions, or limitations would likely have on contracting opportunities for MWDOBs.

#### Single-Family, Multifamily, and Capital Markets

##### *Policies and Procedures*

- 1) Evaluate the regulated entity's policies, procedures, and guidelines in compliance with 12 C.F.R. 1223, including, but not limited to, policies governing contracts for the issuance or guarantee of any debt, equity, or mortgage-related securities; the management of mortgage and securities portfolios; the making of equity investments; and the purchase, sale and servicing of single- and multifamily mortgage loans.
- 2) Specific to OF, evaluate the OF's policies, procedures, and guidelines in compliance with 12 C.F.R. 1223 governing debt issuance, debt servicing, dealer selection, and dealer activities monitoring, and evaluate their appropriateness.
- 3) Evaluate the adequacy of D&I-related departmental policies, procedures, and guidance to ensure sufficient controls are in place.
- 4) Determine whether the policies, procedures, and practices that the regulated entity uses to qualify and disqualify MWDOBs are clear and that they are adhered to by regulated entity management and staff.
  - a) Does the regulated entity's dealer compliance program have an appropriate process for ensuring MWDOBs dealers are qualified?

- b) Are programs in place to promote the participation of new MWDOBs in approved selling groups? If so, are such programs appropriately managed and are established criteria clearly defined?
- 5) Where applicable, review and assess the policies governing the rotation of dealers into and out of the various selling groups.
  - a) Are policies clear, in written form, approved by either the board or a board-level committee?
  - b) Is there a process in place to test for and ensure management and staff adhere to internal policies?
- 6) Where applicable, determine whether the policies used to determine the leads and co-leads on global bonds are clear, in written form, approved by either the board or a board-level committee, and equitably administered

### *Risk Management Practices*

- 1) Evaluate the adequacy of risk tolerances, in alignment with 12 C.F.R. 1223, established in the various activities of debt issuances, debt servicing, dealer selection, dealer activities monitoring, investment disclosures, cost of funds, data sources, data usage, development and use of key indicators, etc.
  - a) Has the regulated entity performed an assessment or impact analysis of risk tolerances established to comply with 12 C.F.R. 1223?
- 2) Review and assess the regulated entity's strategy for managing concentration risk and evaluate its reasonableness.

### Single-Family and Multifamily Seller/Service

- 1) Review and assess the regulated entity's policies, procedures, and processes for evaluating new MWDOB applicants for approval as multifamily and single-family seller/service counterparties.
- 2) Review and assess the regulated entity's policies related to maintaining eligibility requirements for MWDOB multifamily and single-family seller/service counterparties.
- 3) Assess whether the regulated entity has adequate policies, procedures, and processes in place to monitor MWDOB multifamily and single-family seller/service counterparties' compliance with continuing eligibility requirements.
- 4) Assess whether the regulated entity has adequate policies, procedures, and processes in place to monitor MWDOB multifamily seller/service counterparties' compliance with business and transactional requirements.
  - a) Evaluate the regulated entity's practices for maintaining current and complete policies and procedures related to managing MWDOB counterparty relationships.
- 5) Assess the MWDOB Seller/Services approval process.
  - a) If applicable, review a sample of recently approved MWDOB seller/service and determine whether the regulated entity performed appropriate due diligence in assessing a company prior to it becoming an approved seller/service.
  - b) Has the regulated entity performed an assessment or impact analysis to determine compliance with 12 C.F.R. 1223? Assess and conclude on the adequacy of the analysis.
- 6) Evaluate whether a regulated entity performs monitoring of its MWDOB multifamily and single-family seller/service.
  - a) Is the MWDOB seller/service monitoring customized? If so, to what degree and based on what criteria?

### **Data Management**

An effective D&I data management environment ensures appropriate reporting lines and the use and integrity of reports that provide key data necessary for the creation and maintenance of a diverse and inclusive organizational environment. In order to provide the necessary tools for management oversight, an effective reporting framework should be comprehensive and include

internal reporting to the regulated entity's OMWI Officer, and reporting from the OMWI Officer to senior management. As well, the reporting framework should also include external reporting to the entity's board and quarterly and annual reporting to FHFA.

The D&I data management and data collection process should ensure that the board, senior management, and other organizational stakeholders receive complete and accurate data in a timely manner. Given that the board and senior management utilize data regarding organizational D&I performance to set D&I strategic goals and quantifiable objectives, make critical decisions, and enact policy and policy changes, the integrity of the data collection process and data management is key in ensuring effective oversight.

Effective D&I data management oversight and an effective D&I Regulatory Reporting organizational environment will include:

- Clearly defined organizational roles within the D&I reporting function;
- Management policies and procedures that address continuity in D&I reporting and reporting lines;
- Internal policies and procedures for D&I program reporting to ensure the integrity and availability of data;
- Timely submission of reports to OMWI, senior management, the board, FHFA, and other key stakeholders;
- A control environment that provides for routine validation of data supplied to senior management;
- A control environment that provides for routine review of technologies used to support the D&I reporting process, specifically those developed internally or User-Developed Applications (UDAs);
- Effective controls in place to ensure that Regulatory Reporting aligns with guidance provided MWI Rule and applicable Regulatory Reporting Requirements and Instructions; and
- Proper change management process to ensure that relevant policies, processes, and procedures are updated to align with changes to reporting requirements.

### Regulatory Reporting

External reporting requirements include annual and quarterly regulatory reporting to FHFA.

### *Annual Reporting*

Regulated entities are required to report in writing a description of its efforts to promote diversity and to ensure the inclusion and utilization of all minorities, women, and individuals with disabilities at all organizational levels and MWDOBs in all contracts for goods and services. The MWI Rule requires each regulated entity to submit to the FHFA Director, on or before March 31 of each year, a detailed annual report summarizing their D&I activities during the reporting year (January 1 through December 31 of the preceding year) and other such reports as the Director may require. Each regulated entity also is required to submit the EEO-1 Employer Information Report (Form EEO-1, used by the Equal Employment Opportunity Commission (EEOC) and the Office of Federal Contract Compliance Programs (OFCCP) to collect certain demographic information) or similar report.

## *Quarterly Reporting*

12 C.F.R. 1223.22(c) also provides that the Director may require the submission of reports other than the annual report, thereby providing the basis for establishing quarterly data submissions as regulatory reporting, in addition to the annual report. Further, 12 C.F.R. 1223.22(a) advises that the Director may prescribe the format of any report by a regulated entity to the Agency.

The following reports are due quarterly to OMWI:

- **Finance and Counterparties** – via the FHFA’s OMWI Data System. This report shall be submitted on or before the end of each quarter (March 31; June 30; September 30; and December 31) summarizing results for the preceding quarter.
- **Procurement** – via the FHFA’s OMWI Data System. This report shall be submitted on or before the end of each quarter (March 31; June 30; September 30; and December 31) summarizing results for the preceding quarter.
- **BOD and Workforce** – via the FHFA’s OMWI Data System. This report shall be submitted on or before the end of each quarter (March 31; June 30; September 30; and December 31) summarizing results for the preceding quarter.

Data Management examination procedures are detailed below.

### Data Management

- 1) Assess the adequacy of D&I program reporting.
  - a) Does the regulated entity regularly produce and provide accurate, effective, and relevant D&I reporting to the board or a designated committee and executive management?
  - b) Do the regulated entity’s reports meet the FHFA’s regulatory standards and the FHFA conservatorship requirements applicable to Fannie Mae and Freddie Mac, to the extent that the Enterprises are in conservatorship during the examination period?
  - c) Does the regulated entity maintain a process to effectively escalate D&I concerns to senior management and the board?
  - d) Does D&I reporting include trend analysis? Is the reporting format consistent, and does it facilitate tracking of improving or deteriorating D&I concerns at the regulated entity?
  - e) Does the reporting contain an assessment of the adequacy of D&I and identify weaknesses?
- 2) Evaluate management’s preparation, review, and approval of entity-level D&I reporting to senior management, the board, and FHFA in accordance with the applicable entity-defined reporting requirements and the reporting requirements set forth by FHFA.
- 3) Assess the organizational structure in relation to the appropriateness of assigned roles and responsibilities for ensuring adequate entity D&I reporting.
  - a) Review organizational roles and responsibilities to ensure management clearly defines the D&I reporting function and appropriately assigns associated responsibilities. Are appropriate resources (personnel, technological) dedicated to and involved in

reporting activities, including data gathering, preparation, validation, review, and approval?

- b) Evaluate established segregation-of-duty and compensating controls for appropriate execution. Do the D&I reporting roles and responsibilities allow for appropriate segregation of duties?
- c) Assess the utilization of existing entity reporting that is submitted to OMWI to inform D&I program management. Does OMWI receive periodic D&I reports from other key stakeholders? Is the reporting formal or ad hoc? How do these reports inform D&I program management and oversight?
- d) Determine if an entity's data management structure supports timely submission of data to OMWI and FHFA for regulatory reporting purposes. Has the entity established data reporting metrics that measure the performance of data submissions, including timeliness?

### Data Validation

- 1) Evaluate the quality assurance function. Assess how data validation is performed to ascertain the completeness and accuracy of entity D&I reporting.
  - a) Is the quality assurance function integrated into the entity-level reporting process or is it external to that process? Who has responsibility for performing quality assurance? Is quality assurance performed on a sample basis?
  - b) Evaluate the methods used to validate data for management and board reporting. What processes and controls are used to perform validation of data completeness and accuracy based on the data sources used in preparation for reporting? Determine which controls are automated versus manual.
  - c) Determine compliance with entity-defined reporting standards for management and board-level reporting.
  - d) Determine compliance with regulatory reporting standards and directives issued by FHFA, including the FHFA OMWI Data Reporting Manual (DRM).
  - e) Evaluate management's allocation of resources in support of D&I program data quality assurance.
  - f) Evaluate the completeness of assurance procedures.
  - g) Evaluate the sufficiency of and adherence to industry quality assurance testing standards. What basis was used in the development of quality assurance standards to support D&I reporting?

### *Policy and Procedures*

- 1) Evaluate the effectiveness of internal policies and procedures for D&I program reporting, including data validation and quality assurance.
  - a) Determine if policies and procedures cover the application of relevant reporting standards. These policies and procedures should include detailed descriptions of the regulated entity's methodologies.
  - b) Evaluate the regulated entity's policy and procedures for assessing inherent and

- residual risks in D&I program reporting operations.
- c) Determine how management verifies data completeness and accuracy for each source.
  - d) Determine the adequacy of documentation to denote end-to-end collection, use, and output of data.

### *Change Management*

- 1) Review and assess the data reporting change management policies, procedures, and processes.
  - a) Review applicable documentation and interview the appropriate stakeholders to identify the type and frequency of change management techniques used. What methods does the entity use to communicate changes to D&I reporting to appropriate stakeholders? Are the methods formal or ad hoc? What training is established to ensure redundancy and continuity in D&I reporting? Are formal operational backups to support D&I reporting identified?
- 2) Assess the level of management's involvement in the data reporting change management process.
  - a) Evaluate the alignment of business and technology initiatives and objectives to D&I program reporting. Has the entity integrated the D&I program reporting requirements into the overall change management process for technology releases and/or updates?
  - b) Evaluate the quality of technology-related D&I program reporting implementations. Is there appropriate management involvement within and outside of OMWI? Are requirements, testing, and approval discussed and documented?
- 3) Assess the practical use of change management standards, methodologies, and practices.
- 4) Evaluate the performance of change management activities by assessing the adequacy of, and adherence to, industry standards and controls relating to:
  - a) Change request and approval procedures;
  - b) Change testing procedures;
  - c) Change implementation procedures;
  - d) Change review, documentation, and notification procedures; and
  - e) Library and utility program controls.
- 5) Evaluate the applicability and effectiveness of change management methodologies.

### UDAs – can be performed in conjunction with Division of Bank Regulation (DBR) review of End-User Computing.

Assess controls over any UDA spreadsheets and queries used to support the D&I program reporting processes.

- 6) How many D&I program UDAs are currently used to capture, manage, and report data?
- 7) If applicable, assess the quality of UDA documentation and documentation controls.
- 8) If applicable, evaluate the security and integrity of UDA software by reviewing the adequacy of testing programs, standards, and controls. What is the process for access provisioning? Recertification? Access removal?

- 9) Interview end users for feedback. How is OMWI involved in developing reporting requirements? Testing? Validation? Approval?

## **Compliance**

A regulated entity's compliance function is also an integral component of its internal control system for the D&I program. The compliance function evaluates the regulated entity's compliance with applicable D&I-related laws and regulations and monitors the results of compliance efforts. The compliance function should periodically report findings and conclusions to the board or designated board committee.

Compliance examination procedures are detailed below.

- 1) Assess the compliance function's process for evaluating compliance with D&I regulatory requirements.
  - a) Evaluate compliance policies and the FHFA-issued regulated entity requirements for D&I compliance.
  - b) Evaluate D&I compliance reviews to ensure reporting is robust and addresses the appropriateness of the D&I activities.
  - c) Are D&I-related compliance findings resolved by management in a timely manner?
  - d) Be alert to any current or potential litigation or other claims challenging the regulated entity's D&I program that may indicate weaknesses in the organization's risk management, governance, compliance, and internal control structure. Consult with the OMWI SES, Examiner-in-Charge (EIC), and the Office of General Counsel (OGC) as appropriate.

## **Internal Audit**

A regulated entity's IA program is an integral component of its internal control system for the D&I program. The IA function provides the board and senior management independent assessments regarding the effectiveness of the OMWI program and adherence to D&I policies and operating procedures. The IA function should periodically report findings and conclusions to the board or designated board committee.

IA examination procedures are detailed below.

- 1) Review and evaluate IA's role in D&I program assessments.
  - a) Does the regulated entity's IA function independently review the D&I program, including testing for adherence to policies and procedures?
  - b) Do audit procedures require, and do reports include, an evaluation of the independence and effectiveness of the OMWI function and D&I program?
  - c) Does IA assess the overall appropriateness and adequacy of the entity's OMWI framework?
  - d) Does IA review the entity's process for setting the D&I metrics and performance measures?

- e) Does IA review the process for developing and also testing the reliability of D&I oversight reports provided to executive management and the board?
- f) Are D&I-related audit findings resolved by management in a timely manner?

## APPENDIX

### Alert Letter Template



## Federal Housing Finance Agency

Constitution Center  
400 7<sup>th</sup> Street, S.W.  
Washington, D.C. 20219  
Telephone: (202) 649-3800  
Facsimile: (202) 649-1071  
[www.fhfa.gov](http://www.fhfa.gov)

Date

Name

President and Chief Executive Officer

Regulated Entity

Regulated Entity Street Address

City, State, Zip Code

Dear \_\_\_\_\_:

A Diversity and Inclusion (D&I) examination of the **Regulated Entity** will commence on **Date**. **Examiner Name** will lead the D&I examination. Please provide separate, private working space for # individuals. In addition to the FHFA Examination entrance meeting, we would like a D&I overview presentation focusing primarily on changes to the D&I program since the last examination and D&I findings remediation efforts (if any) to take place on **Date**.

Enclosed with this letter is a questionnaire and a list of documents and reports that we request you submit by close of business **Date**, through the Office of Minority and Women Inclusion (OMWI) examination portal in the folder we established with the Federal Home Loan Banks and the Office of Finance. Please ensure all information is as of the most recent quarter end. We will update the information provided as deemed necessary during the examination. In addition, attached is a questionnaire for completion (and signature) by **Regulated Entity**'s OMWI officer.

Please designate one officer to serve as the point of contact to coordinate this and additional requests, and to be responsible for assuring the accuracy and completeness of information provided to us.

Finally, please eliminate all personally identifiable information (e.g., personal phone numbers, home addresses, and social security numbers) for individuals prior to supplying information we requested for the examination. Also, we would appreciate elimination of this type of information from materials provided during the examination, unless specifically requested by the FHFA OMWI personnel.

Should you have any questions, please contact **Examiner Name** at **Phone #**, or **Email** or me directly at **Phone #**, or **Email**.

Sincerely,

**Name**  
Supervisory Examination Specialist  
Office of Minority and Women Inclusion

Enclosures

cc: **OMWI Officer, Title**

## **Alert Letter Document Request Template**



### **Federal Housing Finance Agency Office of Minority and Women Inclusion**

All personally identifiable information (e.g., personal phone numbers, home addresses, social security numbers) for individuals should be eliminated by Bank staff prior to supplying information requested for the examination. Such information should also be eliminated from materials provided by Bank staff subsequent to the commencement of the examination, unless specifically requested by the FHFA personnel.

### **Alert Letter Document Request List**

**Alert Letter OMWI Officer Questionnaire Template**



**Federal Housing Finance Agency  
Office of Minority and Women Inclusion**

**Regulated Entity  
OMWI Officer  
Questionnaire**

The purpose of this questionnaire is to obtain your perspective on the areas listed in this questionnaire. A written response is due to the OMWI Supervisory Examination Specialist prior to the commencement of the examination. Answers should be complete and detailed. To answer questions fully, additional reports or documents may be attached; however, attachments may not replace a written response.

During the examination, please ensure that the OMWI Supervisory Examination Specialist is apprised of any significant changes made or directed by the board of directors. Also, please notify the OMWI Supervisory Examination Specialist of particular areas or issues you would like the examiners to include in their scope of review.

OMWI Officer Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## **D&I Workprogram Template**

Federal Housing Finance Agency  
Office of Minority and Women Inclusion  
Diversity and Inclusion (D&I) Workprogram

### **I. WORK PROGRAM**

The work program for D&I examinations is detailed below. When included in the examination scope, the examiner must perform examination procedures sufficient in coverage to document the basis for the examiner's conclusions on the quality of the OMWI function and the D&I program. Depending on the scope of the examination, all procedures in each of the work program sections may not be required. To determine the scope, the examiner should take into account any applicable FHFA off-site monitoring or analysis reports related to the regulated entity's D&I activities.

#### **1. Scope of Examination Work Performed**

Workpapers must document the examination activities undertaken to evaluate potential risks in this area.

- *Discuss the areas examined and the decision to include those areas in the scope.*

#### **2. Description of Areas of Concern**

- *Identify areas of concern in a particular area.*
- *Assess current issues and trends in the regulated entity's D&I profile.*
- *Evaluate changes within the organization affecting D&I.*
- *Evaluate the entity's own issue identification practices and conclude on their adequacy.*

#### **3. D&I Program Management**

- *Assess and conclude on the adequacy of the organization's issue identification process.*
- *Assess and conclude on the overall adequacy of internal controls.*
- *Assess and conclude on the IA coverage of D&I.*
- *Assess and conclude on the adequacy of the organization's efforts to ensure compliance with:*
  - *D&I laws, regulations and other supervisory guidance; and*
  - *the organization's D&I policies and procedures*

#### **4. Testing**

- *Complete testing, as appropriate, to assess adherence to applicable standards.*

#### **5. Conclusions**

- *Summarize conclusions for all examination work performed.*
- *If applicable, conclude on responsiveness to examination findings from previous examinations.*
- *Develop findings and Matters Requiring Attention, as appropriate, and prepare Findings Memoranda.*
- *Identify areas requiring follow-up examination activities or monitoring.*

## **D&I Report of Examination Template**

Date

Chairperson Name

Chairperson of the Board of Directors

Regulated Entity Name

Chairperson's Mailing Address

City, State Zip

Dear ,

Enclosed is a copy of our Report of Examination (Report) for the Diversity and Inclusion Examination of (Insert Regulated Entity Name) that commenced on (Insert Date) and concluded on (Insert Date). The Report's summary and conclusion section contains the principal examination conclusions and matters that require board attention. We discussed our examination findings with executive management at an exit meeting on (Insert Date), and the board of directors (board) at the board meeting on (Insert Date).

The board is required to submit a written response to the report to the Office of Minority and Women Inclusion. The board should submit the response within 15 days after the date of our presentation of the examination report and conclusions to the board. The response should specifically address items requiring board attention. Board minutes should document approval of the written response.

We appreciate the cooperation of the (Insert Regulated Entity short name as abbreviated above) management team and staff during our examination. We look forward to discussing the examination report with you and the other directors at the board meeting on (Insert Date).

Sincerely,

Signature

Office of Minority and Women Inclusion

Enclosure

cc: Regulated Entity's President's Name, Title (w/enclosure)

(OMWI-Year-RE-Transmittal Letter#)

CONTROLLED



# REPORT OF EXAMINATION



Signature

Name

Title

Office of Minority and Women Inclusion

Federal Housing Finance Agency

Month Day, Year

## Prohibition of Disclosure or Release

### Prohibition of Disclosure or Release

This document is the property of the Federal Housing Finance Agency (FHFA) and is furnished to the (Regulated Entity) for its confidential use. Access is limited to persons and organizations permitted under 12 C.F.R Part 1214 of the Rules and Regulations of FHFA under the circumstances authorized in that part, including those authorized in Advisory Bulletin 2006-AB-03.

In accordance with Section 1116 of the Housing and Economic Recovery Act of 2008<sup>10</sup>, The FHFA's Office of Minority and Women Inclusion (OMWI) conducted an examination of the (Regulated Entity's) Diversity and Inclusion (D&I) Program beginning on (Month Day, Year). This Report of Examination (ROE) presents the results of the FHFA's D&I examination. It was prepared for supervisory purposes and should not be considered an audit report.

---

<sup>10</sup> 12 USC § 4520.

## Table of Contents

<b><u>Scope of Examination</u></b> .....	51
<b><u>Summary and Conclusions</u></b> .....	52
<b><u>Disposition of Findings from Previous Examination</u></b> .....	3
<b><u>Principal Findings of the Examination</u></b> .....	4
<b><u>D&amp;I Performance Reporting</u></b> .....	5
<b><u>Abbreviations</u></b> .....	8
<b><u>Definitions of Findings and Ratings Categories</u></b> .....	9

## Scope of Examination

### **Scope of Examination**

*The preface should describe the scope of the examination and identify all areas examined.*

## Summary and Conclusions

### Summary and Conclusions

	Current Examination	Prior Examination
Examination Date	Insert Month Day, Year	Insert Month Day, Year
Composite D&I Examination Rating <sup>11</sup>		
Scope Area 1		
Scope Area 2		
Scope Area 3		
Scope Area 4		
Scope Area 5		

---

<sup>11</sup> See Appendix for a description of the methodology used to arrive at the composite D&I rating.

## Disposition of Findings from Previous Examination

### **Disposition of Findings from Previous Examination**

*Summarize findings from previous examinations to provide context for the current examination.*

Principal Findings of the Examination

**Principal Findings of the Examination**

Number	Brief Description	Resolve By
Procurement		

## D&I Performance Reporting

*D&I performance reporting is not part of the assessment for determining the D&I composite rating, but it supplements supervision by informing activities in the three key areas of finance, procurement, workforce and board of directors. The following sections provide an overview of performance at the entity-level in comparison to that of all regulated entities during this review period. This analysis serves as the basis for identifying opportunities for improvement, as well as highlighting areas in which this regulated entity has excelled.*

## D&I Performance Reporting

### Example of Diversity and Inclusion Performance Reporting

---

#### **Finance**

*This key area reviews utilization rates across all regulated entities' financial activities. Use this section to compare utilization rates within counterparties, transactions, and transaction amounts, as well as across all financial activities. The finance section should be used to inform conclusions about the regulated entity's D&I priorities with its members and the communities it serves. For each metric, the utilization rate is broken down by transaction type. The table summarizes transaction types with growth opportunities by leveraging existing diverse counterparties and transactions, and highlights those maximizing the use or inclusion of diverse counterparties and transactions.*

#### **Procurement**

*The Procurement key area focuses on contracts and diversity spend between a regulated entity and its vendors and subcontractors. This key area speaks to how a regulated entity conducts business and the extent to which diverse vendors are utilized. Each metric is categorized by commodity to provide insight into areas with growth potential and within which commodities a regulated entity has excelled with respect to D&I measures.*

#### **Workforce**

*Workforce Talent Flow: This section details the changes to a regulated entity's workforce through the diversity of the external applicant pool, internal applicants, and selections or the resulting new hires, as well as promotions and separations from the entity. This section directly informs the workforce staffing levels and can be used to highlight areas of opportunity and any gaps or successes in the hiring process that contribute to the current and future workforce staffing levels.*

*Workforce Staffing Level: This section provides supporting data of the diversity in a regulated entity's workforce. Additionally, the section on workforce staffing level breaks down the percentage of diverse staffing by job category, providing evidence of diversity at all levels of the organization. This breakdown directly relates not only to the diversity goals of the OMWI, but also to inclusion. Use percentages of diverse individuals to compare levels of diversity across this regulated entity and the overall average.*

#### **Board of Directors**

*In this section, the proportion of self-identified diverse individuals on a regulated entity's board of directors is compared to the overall average among self-reported directors across all regulated entities. Diversity and inclusion within the regulated entity's board of directors helps to establish and enforce these values and competencies across the regulated entity's activities and structure, ultimately modeling a culture of diversity and inclusion.*

**Noteworthy D&I Initiative**

---

*This section is intended to detail any noteworthy, novel, or particularly successful D&I initiatives by the regulated entity. This optional section should be used to highlight exceptional initiatives [only] if warranted. The regulated entity may, at its discretion, share selected initiatives with the other regulated entities.*

## Abbreviations

### **Abbreviations**

## Definitions of Findings and Ratings Categories

### Definitions of Findings and Ratings Categories

Examination staff use the following findings classifications:

*Matters Requiring Attention* fall into one of the following categories:

- Critical Supervisory Matters (the highest priority) which pose substantial risk to the safety and soundness of the regulated entity. They may involve instances of noncompliance with laws or regulations of a serious nature or may be repeat criticisms that have escalated in importance because of insufficient attention or action by the regulated entity.
- Deficiencies which are supervisory concerns that FHFA believes could, if not corrected, escalate and potentially negatively affect the condition, financial performance, risk profile, operations, or reputation of 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. Implementation is discretionary, although FHFA expects the regulated entity to implement recommendations unless the regulated entity can demonstrate through a reasoned assessment that the recommended action is unwarranted or is likely to be detrimental to condition, operations, or performance.

*Violations* are matters in which an examination discloses noncompliance with laws, regulations, or orders. Violations require action by the regulated entity to correct, if possible, the past noncompliance with requirements and to change a program or practice to prevent recurrence. The expected remediation timeframe depends on the seriousness of the actual or potential consequences of the violation and the time required for the regulated entity to implement required corrective action.

### D&I Composite Rating Methodology

Similar to the FHFA Safety and Soundness Examination Rating System,<sup>12</sup> each regulated entity is assigned a D&I composite rating from “1” to “5.” A “1” rating indicates the lowest level of supervisory concern, while a “5” rating indicates the highest level of supervisory concern. The composite rating of each regulated entity reflects the conclusions of the underlying component areas, which are individually rated as either “adequate” or “inadequate.”

---

<sup>12</sup> Advisory Bulletin: AB-2012-03.

## Definitions of Findings and Ratings Categories

### Examiners use the following composite rating categories:

When assessing the regulated entity's D&I Program, FHFA uses a rating scale of 1 through 5 with 1 being the highest and 5 the lowest ratings. FHFA will rate a minimum of 5 review areas using the following approach, with all review areas being weighted equally:

- Rated "1" – all 5 areas reviewed are deemed adequate
- Rated "2" – 1 area reviewed is deemed inadequate
- Rated "3" – 2 areas reviewed are deemed inadequate
- Rated "4" – 3 to 4 areas reviewed are deemed inadequate
- Rated "5" – all 5 areas reviewed are deemed inadequate

A rating of 1 indicates: The performance by the board of directors and management, and diversity and inclusion management practices relative to the regulated entity's size, complexity and D&I profile are strong. All significant goals are consistently and effectively identified, measured, monitored, and controlled. The regulated entity is in substantial compliance with laws, regulations, and regulatory requirements, including mission-related requirements. The board of directors and management demonstrate the ability to promptly and successfully address existing and potential problems and risks.

A rating of 2 indicates: The performance by the board of directors and management, and D&I management practices relative to the regulated entity's size, complexity, and D&I profile are satisfactory. Generally, significant goals and problems are effectively identified, measured, monitored, and controlled. The regulated entity is in substantial compliance with laws, regulations, and regulatory requirements, including mission-related requirements. Minor weaknesses may exist, but they are not material to the mission of the regulated entity and are being satisfactorily addressed.

A rating of 3 indicates: The performance by the board of directors and management, and/or D&I management practices need improvement given the regulated entity's size, complexity, and D&I profile. Problems and significant goals may be inadequately identified, measured, monitored, or controlled. The regulated entity may be in non-compliance with laws, regulations, and regulatory requirements, including mission-related requirements. The capabilities of the board of directors or management may be insufficient for the type, size or condition of the D&I Program of a regulated entity.

A rating of 4 indicates: The performance by the board of directors and management and/or D&I management practices are deficient given the regulated entity's size, complexity, and D&I profile. Organizational, operational, performance problems, and significant goals are inadequately identified, measured, monitored, or controlled, and require immediate action to preserve the mission of the regulated entity. The regulated entity may be in significant non-

## Definitions of Findings and Ratings Categories

compliance with laws, regulations, and regulatory requirements, including mission-related requirements.

A rating of 5 indicates: The performance by the board of directors and management and/or D&I management practices are critically deficient. Problems and significant goals are inadequately identified, measured, monitored, or controlled, and may threaten the mission of the regulated entity. The regulated entity is in violation of laws, regulations, and regulatory requirements, including mission-related requirements. The board of directors and management have failed to demonstrate the ability or willingness to correct problems and implement appropriate management practices.

## **References**

Housing and Economic Recovery Act of 2008

Minority and Women Inclusion Rule - 12 C.F.R. Part 1223

Advisory Bulletins

AB-2017-01: Classifications of Adverse Examinations Findings

AB 2020-02: Board Diversity