



Office of Supervision

REPORT OF EXAMINATION

Federal Home Loan Bank of [City]

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In accordance with Section 20 of the Federal Home Loan Bank Act of 1932, as amended, the Federal Housing Finance Board conducted an examination of the Federal Home Loan Bank of [City] as of [Exam Commenced Date]. This report of examination presents the results of the Federal Housing Finance Board's examination. It was prepared for supervisory purposes and should not be considered an audit report.

**[Name of Examiner]
Examiner-in-Charge
Office of Supervision
Federal Housing Finance Board
[ROE "Signed" Date]**

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Scope of the Examination

Summary and Conclusions

	CURRENT EXAMINATION	PRIOR EXAMINATION
Examination Date		
Composite Examination Rating		
Corporate Governance		
Market Risk		
Credit Risk		
Operational Risk		
Financial Condition and Performance		

Corporate Governance

Market Risk

Credit Risk

Operational Risk

Financial Condition and Performance

Financial Condition and Performance - Data

\$ Billions (except net income)				System
	4Q XXXX	4Q XXXX	2Q XXXX	2Q XXXX
Assets				
Advances				
Net Mortgages				
MBS				
Non-MBS Investments				
MBS as a Multiple of Capital				
Consolidated Obligations				
Bonds				
Discount Notes				
Total GAAP Capital				
Regulatory Capital				
Retained Earnings				
YTD Net Income				
As Percent of Total Assets				
Advances				
Mortgages				
MBS				
Non-MBS Investments				
Regulatory Capital				
Retained Earnings				
As Percent of Consolidated Obligations				
Bonds				
Discount Notes				
Advances plus Mortgages				
Leverage (GAAP) (times)				
YTD (percent)				
Return on Assets				
Return on Equity				
Yield on Advances				
Yield on Investments				
Yield on Earning Assets				
Cost of Interest-Bearing Liabilities				
Net Spread				
Dividend Rate (quarterly ave)				
Number of Members				
Top 10 Borrower Percent				

Affordable Housing and Community Investment Activities

Disposition of Findings From Previous Examination

Supplement – Principal Findings

Abbreviations

AB	Advisory Bulletin
AHP	Affordable Housing Program
ALCO	Asset Liability Committee
AMA	Acquired Member Assets
ARM	Adjustable Rate Mortgage
Bank	Federal Home Loan Bank of Seattle
BVE	Book Value of Equity
CFI	Community Financial Institution
CID	Community Investment Department
CO	Consolidated Obligation(s)
DN	Discount Note
DOE	Duration of Equity
FAS	Financial Accounting Standard
FASB	Financial Accounting Standards Board
FICO	Fair Isaac & Co.
Finance Board	Federal Housing Finance Board
GAAP	Generally Accepted Accounting Principle(s)
IDC	FT Interactive Data Corporation
LLR	Loan Loss Reserve
IAD	Internal Audit Department
IT	Information Technology
LIBOR	London Interbank Offered Rate
MPF	Mortgage Partnership Finance
MPP	Mortgage Purchase Program
MVE	Market Value of Equity
OAS	Option Adjusted Spread
OF	Office of Finance
OGC	Office of General Counsel
OS	Office of Supervision
PFI	Participating Financial Institution
RMBS	Residential Mortgage Backed Securities
RMP	Risk Management Policy
ROE	Report of Examination
S&P	Standard and Poor's

ROE Instructions

Examiners use the following findings categories:

Unsafe or Unsound Practice or Condition: Any action or inaction that is contrary to prudent operation that has resulted in, or if continued could result in, abnormal loss or risk or damage to the Bank or the OF. Immediate corrective action is required. A Bank's condition need not deteriorate to the brink of insolvency before a practice or condition may be found to be unsafe or unsound.

Violation: Non-compliance with statute, regulation, or agency rule. Corrective action is required.

Weakness: An inadequate or otherwise unacceptable policy, procedure, or practice, or a lack of sufficient internal controls or risk management. Corrective action is required.

Recommendation: A suggested change to a policy, procedure, practice, or control to improve performance or operations.

Referral: A matter that raises a legal or policy issue requiring guidance from or development of a position by Finance Board staff.

Examiners use the following composite rating categories:

Composite 1 – An institution that is rated “1” is considered to be operating in a safe and sound manner in every respect. It exhibits no material deficiencies in corporate governance, risk management, or financial condition, performance, and prospects. It is in substantial compliance with laws, regulations, and supervisory guidance.

Composite 2 – An institution that is rated “2” is considered to be operating in a satisfactory or acceptable manner. It may exhibit some moderate deficiencies in corporate governance, risk management, or financial condition and performance. The institution's board of directors and senior management have demonstrated the ability and willingness to address deficiencies in a timely manner. It is in substantial compliance with laws, regulations, and supervisory guidance. *The general policy is that examiners will monitor the correction of identified deficiencies or weaknesses through the normal supervisory process.*

Composite 3 – An institution that is rated “3” raises supervisory concern due to deficiencies in its corporate governance, risk management, or its financial condition or performance. Taken alone or in combination, these deficiencies are moderate to severe. The organization may be in substantial noncompliance with laws, regulations, or supervisory guidance. The institution's board of directors or management do not demonstrate the ability or willingness to address deficiencies. A composite “3” rated institution requires more than normal supervision. *The general policy is that supervisory action will be taken to address identified deficiencies or weaknesses.*

Composite 4 – An institution that is rated “4” is operating in an unacceptable manner. It may exhibit serious deficiencies in corporate governance, risk management, or financial condition and performance. It may be in substantial noncompliance with laws, regulations, or supervisory guidance. It requires close supervisory attention. Institutions in this group are considered to be operating in an unsafe or unsound condition or with unsafe and unsound practices. *The general policy is that a formal enforcement action will be taken to address identified deficiencies or weaknesses.*

ROE Instructions

Report of Examination Form and Content

The report of examination should articulate all examination conclusions and the analysis supporting those conclusions in a clear and persuasive fashion. The report of examination should contain three narrative sections: the **Preface**, the **Body**, and the **Supplement**. The content of each section is described below. Examiner Guidance Bulletin 07-01 and the Federal Home Loan Bank Rating System provide additional guidance.

1) Preface

Scope of the Examination Page

The scope should identify all areas examined that are related to corporate governance, market risk, credit risk, operational risk, financial condition and performance, and, if applicable, affordable housing and community investment activities. Specific areas not examined should be listed.

2) Body

A) Summary And Conclusions Page

The Summary and Conclusions page should include a table at the top that depicts the date and ratings (both composite and component ratings) for the current examination and the previous examination. The definition of the composite rating should also be provided there.

Examiners should describe the basis of the composite rating and any changes to the rating since the previous examination. Issues relevant to the rating assigned should be reported in the order of their importance. The discussion should clearly articulate the conclusion regarding the overall condition and practices of the FHLBank and the analysis used to reach that conclusion. Not every rating component must be discussed.

B) Corporate Governance Rating Page

All conclusions must be supported and positive as well as negative results should be discussed. Examiners should provide an assessment of:

- 1) The board of directors and senior management;
- 2) Risk management policies and controls;
- 3) Compliance with laws, regulations and supervisory guidance; and
- 4) Governance and administration of the Bank's affordable housing and community investment activities.

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C) Market Risk Rating Page

All conclusions must be supported and positive as well as negative results should be discussed. Discuss the level of market risk and the quality of market risk management. Also discuss practices that influence the future direction of risk (if known). Any discussion of trends should describe the applicable timeframe of the review.

Discussion of the level of market risk should address:

- 1) The sensitivity of the Bank's earnings and market value of equity to changes in interest rates and other market risk factors.
- 2) The sensitivity of the Bank's earnings and market value of equity to changes in interest rates and other market risk factors in relation to its retained earnings and capital.

Discussion of the quality of market risk management should address the quality and effectiveness of:

- 1) Board and senior management oversight of market risk;
- 2) Risk management policies, procedures, and internal controls;
- 3) Risk measurement, monitoring, and reporting systems, and;
- 4) Hedging activities.

D) Credit Risk Rating Page

All conclusions must be supported and positive as well as negative results should be discussed. Discuss the level of credit risk and the quality of credit risk management. Also discuss factors that influence the future direction of risk (if known). Any discussion of trends should describe the timeframe of the review.

Discussion of the level of credit risk should address:

- 1) The level and trend of nonperforming and non-accrual assets;
- 2) The overall quality and diversification of the advance, investment and acquired member assets portfolios; and
- 3) The volume and nature of credit documentation exceptions.

Discussion of the quality of credit risk management should address the quality and effectiveness of:

- 1) Credit reviews;
- 2) Credit risk management policies and procedures;

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- 3) Credit underwriting policies and procedures;
- 4) Collateral valuation and testing procedures;
- 5) Methodologies for evaluating and maintaining credit loss reserves;
- 6) Credit risk self-assessments and internal risk ratings; and
- 7) Credit information systems.

E) Operational Risk Rating Page

All conclusions must be supported and positive as well as negative results should be discussed. Discuss the level of operational risk and the quality of operational risk management. Also discuss factors that influence the future direction of risk (if known). Any discussion of trends should describe the applicable timeframes of the review.

Discussion of the level of operational risk should address:

- 1) The level and frequency of losses resulting from inadequate or failed internal processes or systems, fraud or human error, or from external events;
- 2) The severity and frequency of accounting, financial, and regulatory reporting errors;
- 3) Whether the level of operational risk losses are increasing, decreasing or stable;
- 4) The degree to which processes are automated to minimize errors; and
- 5) The level of operational risk arising from the administration of the Bank's principal lines of business and its affordable housing and community investment activities.

Discussion of the quality of operational risk management should address the quality and effectiveness of:

- 1) Policies, procedures, systems in place to measure, manage, and control operational risk;
- 2) The measurement, monitoring and control of operation risks;
- 3) Policies and procedures to ensure secure, efficient and effective information and data processing;
- 4) Contingency and business continuity planning;
- 5) Operational risk reports;
- 6) Processes for identifying and controlling risk to business activities;
- 7) The operational risk self-assessment; and
- 8) Operational risk management in the administration of the Bank's affordable housing and community investment activities.

F) Financial Condition and Performance Rating Page

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All conclusions must be supported and positive as well as negative results should be discussed. The Bank's financial condition, performance, and prospects should be discussed and include an assessment of:

- 1) Earnings and profitability
- 2) Operating efficiency
- 3) Capital and retained earnings
- 4) Liquidity

G) Financial Condition and Performance Data Page

Include information relevant to the financial condition and performance of the Bank that supports the conclusion set forth in the Financial Condition and Performance section. The examiner possesses discretion to determine the information that will be included in this section. A default example of this page has been included in the sample report of examination. This information can be obtained from the financial analyst assigned to the Bank.

H) Affordable Housing and Community Investment Activities Page

Provide an evaluation of whether the Bank's affordable housing and community investment activities are effective and comply with law and regulations. This discussion should address significant supervisory concerns and whether and how the Bank responds to supervisory criticism. Supporting paragraphs may include discussion of such areas as:

- 1) The level of engagement and oversight;
- 2) The existence of a comprehensive and accurate management information system;
- 3) Accurate scoring of applicants and the award and disbursement of the proper amount of AHP subsidy;
- 4) Adequate monitoring of compliance of approved projects and set-aside programs with requirements and prompt remedial action of problems found; and
- 5) Eligibility of projects and households for community investment cash advance funding.

I) Disposition of Findings from Previous Examination Page

This section should include a brief overview regarding the disposition of findings identified at the previous examination. If the Bank has not properly addressed prior examination findings, consider whether this comment should be placed on the Summary and Conclusions pages instead.

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3) Supplement

A) Principal Findings Page

Discuss all findings that are considered to be a “weakness,” “unsafe and unsound,” “violations,” and “referrals.” Recommendations are included in the report of examination only on an exception basis at the discretion of the examiner in charge. See Examiner Guidance Bulletin 07-01 for presentation of findings.