



FEDERAL HOUSING FINANCE AGENCY

ADVISORY BULLETIN

AB 2017-01

CLASSIFICATIONS OF ADVERSE EXAMINATION FINDINGS

Purpose

This advisory bulletin establishes classifications of adverse examination findings at Fannie Mae, Freddie Mac, the Federal Home Loan Banks (the regulated entities) and the Office of Finance. Adverse examination findings are typically risk management deficiencies, increases in risk exposures, or violations of laws, regulations, or orders that affect the performance or condition of a regulated entity or the Office of Finance. This advisory bulletin establishes classifications of examination findings that identify priorities for remediation by the regulated entities and the Office of Finance and guide FHFA in the development of supervisory strategies. This advisory bulletin supersedes and rescinds Advisory Bulletin 2012-01, *Categories of Examination Findings* (April 2, 2012).

Communication of Adverse Examination Findings

FHFA staff communicates examination findings to a regulated entity or the Office of Finance through the examination process. Reports of examination and other formal written communications summarize examination findings, assessments, and conclusions. FHFA provides a report of examination to the board of directors of the regulated entity or the Office of Finance. The board's awareness of significant supervisory issues is critical because it is ultimately responsible for the organization's safety and soundness.

Adverse Examination Findings Classifications:

When communicating adverse examination findings to the regulated entities and Office of Finance, examination staff will use the following classifications:

1. *Matters Requiring Attention* (MRAs) 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 or the Office of Finance. 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 or Office of Finance.

- 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 or the Office of Finance.

The distinction between critical supervisory matters and deficiencies is the nature and severity of the issues requiring corrective action. Corrective action for an MRA must be articulated in written remediation plans and timeframes that reflect the significance of the findings.

2. **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 or Office of Finance to implement recommendations unless the regulated entity or Office of Finance can demonstrate through a reasoned assessment that the recommended action is unwarranted or is likely to be detrimental to condition, operations, or performance.
3. **Violations** are matters in which an examination discloses noncompliance with laws, regulations, or orders. Violations require action by the regulated entity or Office of Finance 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. A violation that may negatively affect the condition or practices of the regulated entity may also be identified as an MRA.

Effective Date

The adverse examination findings classifications defined in this Advisory Bulletin are effective for the 2017 examination cycle for Fannie Mae and Freddie Mac. The adverse examination findings classifications are effective upon issuance of this Advisory Bulletin for all Federal Home Loan Bank and Office of Finance examinations not yet started.

Advisory bulletins communicate guidance to FHFA supervision staff and the regulated entities on specific supervisory matters pertaining to the Federal Home Loan Banks, the Office of Finance, Fannie Mae, and Freddie Mac. Contact Louis Scalza, Associate Director, Division of Bank Regulation at Louis.Scalza@fhfa.gov or Jim Griffin, Associate Director, Division of Enterprise Regulation at James.GriffinJr@fhfa.gov, with comments or questions pertaining to this bulletin.