

Introduction

The Federal Home Loan Banks (FHLBanks) are cooperative institutions owned by members. The Federal Home Loan Bank Act of 1932 (FHLBank Act) created the Federal Home Loan Bank System to support housing finance. Subsequently, certain members were authorized to make advances supporting community investment. Each FHLBank is a separate, government-chartered, member-owned corporation.

Pursuant to Section 4 of the FHLBank Act, any building and loan association, savings and loan association, cooperative bank, homestead association, insurance company, savings bank, community development financial institution, or any insured depository institution satisfying the requirements of that section may become a member of an FHLBank. To become a member of an FHLBank, an eligible institution must be authorized under state law to engage in the activities associated with membership, such as owning FHLBank stock, borrowing funds, and pledging assets to secure those borrowings.

Although granting membership to an institution generally does not itself expose the FHLBank to risk, the membership approval process requires the adoption and implementation of an adequate risk management process. This is particularly true because almost all members will use various FHLBank products and services, such as obtaining credit and using correspondent banking services. Granting membership to an ineligible institution or failing to perform sufficient due diligence of the institution in the approval process can expose the FHLBank to significant risks, especially legal, credit, and operational risk. Regardless of the type of member, management must establish and follow prudent membership approval procedures.

12 CFR Part 1263 of FHFA regulations establishes eligibility requirements, a membership application process, and capital stock requirements for FHLBank membership, as well as procedures for the termination of FHLBank membership (including the liquidation of member indebtedness, settlement of outstanding business transactions, and redemption or repurchase of capital stock) in the event of voluntary withdrawal from membership, involuntary termination of membership, or merger or consolidation involving member and nonmember institutions. 12 CFR Part 1263 also contains provisions governing the readmission of members to FHLBank membership, FHLBank access to member information, and the display of official FHLBank membership insignia.

This module covers eligibility requirements for members. The eligibility requirements and application process for organizations seeking to be certified by FHLBanks as housing associates are set forth in 12 CFR Part 1264 of the FHFA regulations. FHLBanks can make advances to housing associates even though they are not FHLBank members.

In summary, an FHLBank may certify an entity to be a housing associate if it meets the criteria included in 12 CFR 1264.4 of FHFA's regulations. These criteria include:

- 1) The applicant is approved under title II of the National Housing Act (12 USC 1707, *et seq.*);
- 2) The applicant is a chartered institution having succession;
- 3) The applicant is subject to the inspection and supervision of some governmental agency;
- 4) The principal activity of the applicant in the mortgage field consists of lending its own funds; and
- 5) The financial condition of the applicant is such that advances may be safely made to the applicant.

Eligibility Requirements for Membership

Pursuant to Section 4(a) of the FHLBank Act and 12 CFR 1263.6 of the FHFA regulations, those eligible for membership include depository institutions, community development financial institutions (CDFI), and insurance companies that:

- 1) Are duly organized under federal, state, or tribal law;
- 2) Are inspected and regulated under state or federal banking or similar state laws, or in the case of a CDFI, is certified by the CDFI Fund.
- 3) Either originate or purchase "long-term home mortgage loans" (loans with an original term-to-maturity of five years or more), including holding mortgage-backed securities representing an undivided interest in long-term mortgage loans;
- 4) Have at least 10 percent of their total assets in "residential mortgage loans," if they are credit unions or federally-insured depository institutions other than community financial institutions, or institutions below a certain total asset threshold, as defined in 12 CFR 1263.1;
- 5) Are of sound financial condition such that the FHLBank may safely make advances to them;
- 6) Possess a home financing policy that is consistent with sound and economical home financing; and

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- 7) Possess management who is not subject to any enforcement actions or criminal, civil, or administrative proceedings or monetary liabilities, lawsuits, or judgments.

12 CFR 1263.1 defines a CDFI to be an institution that is certified as a community development financial institution by the CDFI Fund under the Community Development Banking and Financial Institutions Act of 1994, other than a bank or savings association insured under the Federal Deposit Insurance Act, a holding company for such a bank or savings association, or a credit union insured under the Federal Credit Union Act. In addition, a CDFI credit union specifically refers to those CDFI credit unions that are state chartered credit unions, certified by the CDFI Fund as CDFIs, and do not have Federal share insurance. 12 CFR Part 1263 includes specific references and requirements affecting CDFI credit unions and CDFIs.

An applicant for FHLBank membership satisfying the requirements of 12 CFR 1263.6 through 1263.16 of the FHFA regulations will be presumed to comply with the eligibility requirements of Section 4(a) of the FHLBank Act and 12 CFR 1263.6 of the FHFA regulations. 12 CFR 1263.17 of the FHFA regulations allows an FHLBank to rebut a membership applicant's presumption of compliance with the membership eligibility requirements. Members may also rebut their noncompliance with the eligibility requirements.

Membership Application Process

FHLBank membership application requirements are described generally in 12 CFR 1263.2 of the FHFA's regulations. An applicant must submit to the FHLBank an application satisfying the requirements of 12 CFR Part 1263, including a written resolution or certification duly adopted by the applicant's board of directors, or by an individual with authority to act on the board's behalf, that the applicant (1) has reviewed the requirements of 12 CFR Part 1263 and has provided, to the best of the applicant's knowledge, the most recent, accurate and complete information available and (2) will promptly supplement the application with any relevant information that comes to the applicant's attention prior to the FHLBank's decision to approve or deny the application.

12 CFR Part 1263 provides that an FHLBank with whom a membership application has been filed will obtain and review information and documents required from the applicant to establish or rebut any rebuttable presumption of the applicant's satisfaction of eligibility requirements. In determining whether an applicant, other than an insurance company or a CDFI that is not a CDFI credit union, has complied with the financial condition eligibility requirement of 12 CFR 1263.11, an FHLBank must obtain from the applicant and review the following documents:

- 1) *Regulatory Financial Reports.* Regulatory financial reports filed by the applicant with the appropriate regulator for the last six calendar quarters and three year-ends preceding the date the FHLBank receives the application.

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- 2) *Financial Statements.* The most recent independent audit of the applicant conducted in accordance with generally accepted auditing standards by a certified public accounting firm that submits a report on the applicant, or such other audit, review, or compilation of financial statements permitted under 12 CFR 1263.11(a)(2).
 - 3) *Regulatory Examination Report.* The applicant's most recent available regulatory examination report prepared by the appropriate regulator, a summary prepared by the FHLBank of the applicant's strengths and weaknesses as cited in the regulatory examination report, and a summary prepared by the FHLBank or applicant of actions taken by the applicant to respond to examination weaknesses.
 - 4) *Enforcement Actions.* A description prepared by the FHLBank or applicant of any outstanding enforcement actions against the applicant, reports as required by the enforcement action, and verbal and written indications, if available, from the appropriate regulator of how the applicant is complying with the terms of the enforcement action; and
 - 5) *Other Information.* Any other relevant document or information concerning the applicant that comes to the FHLBank's attention in reviewing the applicant's financial condition.

An applicant, other than an insurance company and a CDFI that is not a CDFI credit union, will be deemed to be in compliance with the financial condition eligibility requirement if the applicant satisfies the composite examination rating, capital, and minimum performance standard requirements of 12 CFR 1263.11(b). An insurance company applicant and a CDFI that is not a CDFI credit union will be deemed to meet the financial condition eligibility requirement if it satisfies the requirements of 12 CFR 1263.16.

The FHLBank must prepare a written digest for each applicant stating whether the applicant has satisfied the requirements of the rebuttable presumption of compliance with eligibility requirements, together with the FHLBank's findings and the related reasons. The FHLBank must maintain in a membership file for the applicant, the digest, all other documents required in 12 CFR 1263.6 through 1263.18 (including all documents required to establish or rebut a presumption), additional documents submitted by the applicant or otherwise obtained or prepared by the FHLBank concerning the applicant, and the decision resolution to be adopted by the FHLBank disposing of the application. The FHLBank shall maintain the file for at least three years after the FHLBank's decision to approve or deny the membership application and the resolution of any appeal to the FHFA under 12 CFR 1263.5.

An FHLBank may delegate its authority to approve membership applications only to a committee of the FHLBank's board of directors, the FHLBank president, or a senior

officer who reports directly to the FHLBank president, other than an officer with responsibility for business development. The FHLBank must act on a membership application within 60 calendar days of the date the institution deems the application to be “complete,” as that term is defined in 12 CFR 1263.3, and thereafter to provide the applicant and the FHFA with a copy of the FHLBank’s decision resolution within three days of the rendering of the decision. The decision resolution must be duly adopted by the FHLBank’s board of directors, by a committee of the board, or by an officer having delegated authority from the board to approve membership applications, and must state the following:

- 1) That the statements in the digest, described above, are accurate to the best of the FHLBank’s knowledge and are based on a diligent and comprehensive review of all available information identified in the digest; and
- 2) Where the decision resolution is to approve the application for membership, that the applicant is authorized under the laws of the United States and of the appropriate state to become a member of, purchase stock in, do business with, and maintain deposits in, the FHLBank to which the applicant has applied, and the applicant meets all of the membership criteria of the FHLBank Act and 12 CFR Part 1263 of the FHFA regulations.

Where the FHLBank’s decision resolution is to deny the membership application, the applicant may file a written appeal of the decision with the FHFA within 90 days of the date of the FHLBank’s decision. The appeal process is governed by 12 CFR 1263.5 of the FHFA regulations.

Membership Stability and Suitability

FHLBanks serve the needs of their members through a variety of services. The demand for those services can increase or decrease depending on the number of members, the economic environment, and other factors. FHLBanks must evaluate the number and character of its membership base in establishing a strategic plan. The management and board of an FHLBank should be aware of membership concentrations and evaluate whether a small group of large members or a particular type of member predominates.

Membership levels can change due to a variety of factors, some outside the FHLBank’s control, like a member’s voluntary withdrawal, merger, or acquisition by another financial institutions that may or may not be a member of the same FHLBank, or the failure of a member. External forces affecting the stability of an FHLBank’s membership base must be evaluated.

Different members pose greater uncertainty and different risks to an FHLBank. An FHLBank must be aware of such differences and conduct any preparatory analysis in advance of accepting such members. For example, lending to a member that is not a

federally-insured bank, thrift, or credit union, may pose greater risk. Unlike the established priority of FHLBank claims in the event of the failure of a federally-insured member, an FHLBank's lien status may not be clear in the event of receivership or conservatorship of an insurance company member, for example. The FHLBank should evaluate relevant laws for each state in its district from which it intends to accept insurance company members.

Regulatory Environment

The primary authorities governing, or relevant to, membership activities of the FHLBanks are set forth below. The examiner should ensure that the application of such authorities to an FHLBank has been considered by the FHLBank and its legal counsel.

1) ***Rules and Regulations of the Federal Housing Finance Agency (FHFA) and its predecessor, the Federal Housing Finance Board (Finance Board)***, include the following parts and sections relevant to membership approval:

12 CFR 1261.4(a) of the FHFA regulations requires an FHLBank to file an annual capital stock report with the FHFA that provides information on its members' capital stock.

12 CFR Part 917 of Finance Board regulations addresses powers and responsibilities of FHLBank boards or directors and senior management. In particular, 12 CFR 917.3, Risk Management, 12 CFR 917.4, Bank Member Products Policy, 12 CFR 917.5, Strategic Business Plan, and 12 CFR 917.6, Internal Control System, are pertinent.

12 CFR Part 1263 of the FHFA regulations addresses FHLBank membership, including eligibility requirements, application process, reporting requirements, and other matters.

12 CFR Part 1290 of the FHFA regulations addresses members' adherence to community support standards, documentation of community support activities, and the periodic submission of a community support statement to the FHFA.

12 CFR 1266.4(e) of the FHFA regulations requires the FHLBanks to provide the FHFA with a report of advances and commitments outstanding to each of its members in accordance with the instructions provided in the Data Reporting Manual adopted by the FHFA.

2) ***Advisory Bulletins of the Federal Housing Finance Board*** that provide supervisory guidance relating to the topic of membership activities are:

Advisory Bulletins 02-3, dated February 13, 2002, and 03-2, dated February 10, 2003,

provide guidance on specific attributes to be considered by FHLBanks in the formation of their business continuity plans and the establishment of bilateral agreements with other FHLBanks.

3) ***Regulatory Interpretations of the FHFA***

Regulatory Interpretation 2012-RI-02, dated April 3, 2012, addresses whether a non-depository institution that is eligible for membership can establish its principal place of business in a particular state solely on the fact that it has been organized under the laws of that state.

Issues Specific to the FHLBanks

Membership Applications

Organizational structures for membership activities may vary and require coordination with other FHLBank departments and functions, such as membership services, credit services, correspondent bank services, information technology, legal, risk management, executive management, management committees, and the board of directors. In general, the membership application process consists of the following steps:

- 1) A potential applicant requests membership and submits an application for membership. Several of the FHLBanks have application forms on their respective websites. Some FHLBanks require additional information, such as member management responses to regulatory examination reports or additional financial information, at the time of application.
- 2) The FHLBank will review the application, determine whether the application is complete and whether the applicant is otherwise eligible to become a member, and may request additional information based on this review. The FHLBank must act on a complete application within 60 calendar days of receipt.
- 3) The FHLBank's board of directors or designee approves the applicant for membership. The new member must purchase FHLBank stock within 60 calendar days of membership approval. Some FHLBanks may require submission of funds for stock purchase at the time of application.
- 4) Within three business days of an FHLBank's decision of a membership application, the FHLBank must provide the applicant and the FHFA with a copy of the FHLBank's decision resolution.

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- 5) Upon approval of a membership application, the FHLBank should contact the FHFA to institute the issuance of an identification number for data entry in the membership system.

Federal Housing Finance Agency Membership System

The membership database system was developed as a central repository for information collected by the FHFA from the FHLBanks about members and housing associates. The membership database maintains FHLBank-reported information concerning a financial institution's membership status and charter information as well as details on each member's holdings of advances and FHLBank capital stock.

The membership system and membership database also do the following:

- 1) Maintain member profile information and status changes, such as information regarding mergers, voluntary withdrawals, changes in principal place of business, charter relocations, and charter conversions;
- 2) Provide for the assignment of identification numbers for new approvals; and
- 3) Maintain quarterly membership financial information reported by the FHLBanks, such as advances, commitments and capital stock outstanding for members and housing associates and financial information (total assets and residential mortgage loans) compiled from call report information the member filed with its regulator or from other sources if the member does not file a call report.

Risks Associated with Membership Activities

Membership activities can subject the FHLBanks to various risks if the FHLBanks subsequently provide advances to an inappropriately approved member. The primary risks are legal risk, credit risk, and operational risk. Legal risk may be incurred if the FHLBank's application process does not ensure that the applicant meets all applicable regulatory requirements to become a member. Legal risk may also arise if documents used in membership activities are incomplete, missing, unenforceable, not in compliance with federal and state requirements, or otherwise inadequate to protect the FHLBank's interests. Legal risk may also arise if the FHLBank does not adequately document sufficient rationale for membership denials. Review of the eligibility of potential insurance company members is particularly important, as state law generally governs insurance company membership eligibility and will likely vary within the FHLBank's district.

The FHLBank may also incur credit risk if it grants an applicant membership without fully evaluating the member's financial condition as required by the regulation and subsequently extends credit to the member. Failure to adhere to membership eligibility

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requirements may result in approval of ineligible applicants or rejection of eligible applicants.

Operational risk can arise if the FHLBank does not have adequate procedures to document the application process, including membership denials. The FHLBank must also ensure that approval authority is appropriate and reporting to the FHFA is timely.

Examination Guidance

The workprogram for the Federal Home Loan Bank Membership examination module is detailed below. If this module is included in the examination scope, the examiner must perform worksteps sufficient in coverage to document the basis for conclusions on the quantity of risk and quality of risk management pertaining to this area. Transaction testing is mandatory and the examiner must document sufficient worksteps from Section 4, *Testing*, to support the findings and conclusions from this examination module.

In determining the extent of review and testing to be conducted in completing each analysis, the examiner should take into account any applicable FHFA off-site monitoring or analysis reports, such as analysis of the quality and effectiveness of corporate governance practices, financial condition and performance, economic and housing industry conditions, internal controls, and audit coverage relating to the institution's membership activities.

NOTE: Text in (*italics*) referenced in a workstep represents illustrative guidance that serves as suggestions for specific inquiry.

1. Scope of Examination Work Performed

- 1) Review past reports of examination for outstanding issues or previous problems related to membership.
- 2) Review FHFA off-site monitoring or analysis reports, and workpapers produced as part of on-going monitoring, related to membership.
- 3) Assess the status of outstanding Matters Requiring Attention and Violations pertaining to membership.
- 4) Review internal audit reports for outstanding issues relating to membership.
- 5) Review minutes of meetings of the board of directors and relevant board and management committees for any issues regarding membership.
- 6) Identify and evaluate the FHLBank's strategy for membership. What are the risks and benefits of that business model? (*Are membership levels changing? Are members availing themselves of FHLBank services? What kind of member is the FHLBank targeting? Does that member pose risks with which the FHLBank is not familiar?*)

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- 7) Review the strategic business plan for compliance with 12 CFR 917.5(a) as this relates to membership. Determine the status of goals and objectives and how the FHLBank monitors these.
 - 8) Determine if the business model used by the FHLBank for membership is consistent with the FHLBank's broader strategic objectives and the needs of the members.
 - 9) Evaluate any significant changes related to membership that have been implemented since the last examination or are being considered that may affect the FHLBank's risk profile.

Summarize the work performed in the examination of the FHLBank's membership. To the extent there were modifications to the originally planned scope based on concerns identified during the examination, document those changes and the reasons for such changes.

2. Description of Risks

- 1) Review the number of new members approved and members lost since the last examination. *(Is the new member approval rate sufficient to meet strategic plan objectives? If not, what is the FHLBank's strategy to ensure strategic goals are met?)*
- 2) Review and evaluate the FHLBank's marketing efforts as they relate to new membership. *(Does the FHLBank's marketing efforts target the growth objectives of the strategic plan, if any?)*
- 3) Review and assess any market analysis conducted by the FHLBank to determine if strategic objectives related to membership are reasonable. *(Do conclusions in the market analysis correlate to the strategic objectives in the strategic plan?)*
- 4) Review any employee incentive compensation program as that relates to membership.

3. Risk Management

Risk Identification Process

- 1) Based on worksteps performed under **Description of Risks**, assess and conclude on the adequacy of the FHLBank's risk identification process. *(Has the FHLBank appropriately identified all areas of potential risk resulting from membership activities? Is risk exposure monitored on an on-going basis? Does the FHLBank report on risk exposure to the appropriate parties within the organization? Has the identification of potential risk resulted in establishing appropriate controls for membership?)*

Organizational Structure

- 1) Identify the key personnel and their primary duties, responsibilities and technical expertise to determine if resources are effectively deployed to execute the FHLBank's membership strategies.
- 2) Evaluate the staffing and skill level, segregation of duties, and cross training of personnel to determine if resources are sufficient to execute the FHLBank's membership strategies. *(Does staff have appropriate training and experience to carry out their responsibilities within the organization? What steps has the FHLBank taken to address identified deficiencies in staff expertise? Are such steps appropriate?)*
- 3) Evaluate coordination between departments such as member services, credit, risk management, and information technology to determine if membership applications are processed in an efficient and effective manner. *(Do different departments within the FHLBanks coordinate efforts to limit the risk exposure to the FHLBank resulting from membership? How are these efforts coordinated?)*

Policy and Procedure Development

- 1) Review departmental policies and procedures for membership. *(Are policies and procedures current, relevant, sufficiently detailed, and consistent with the FHLBank's policies and applicable regulations? Do the policies provide adequate guidance in controlling risk to the institution? Do the policies detail approval authority and documentation requirements? Do policies and procedures clearly define responsibility for administration of membership applications and on-going membership monitoring?)*

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- 2) Determine if the FHLBank has established membership approval policies and procedures that require the evaluation of the financial condition of applicants, both at the time of application and on an ongoing basis.
 - 3) Determine if the FHLBank has established membership approval policies and procedures under which the FHLBank determines that applicants meet other eligibility requirements, such as long-term residential mortgage origination and investment.
 - 4) Determine if FHLBank management has established policies related to termination of FHLBank membership (including the liquidation of member indebtedness, settlement of outstanding business transactions and redemption or repurchase of capital stock) in the event of voluntary withdrawal from membership, involuntary termination of membership, or merger or consolidation involving a member and nonmember for compliance with 12 CFR Part 1263.
 - 5) Determine if FHLBank management has established policies that require consideration and evaluation of state laws that may govern: (i) membership eligibility of applicants; (ii) authority of applicants to own FHLBank stock, borrow funds, and pledge assets to secure borrowings; and (iii) treatment of claims and collateral in conservatorship or receivership. These considerations are particularly important with respect to insurance company applicants.

Risk Metrics

- 1) Evaluate any risk metrics established related to membership. *(Do such metrics appropriately consider all aspects of potential risk to the organization?)*
- 2) Evaluate the adequacy of the board and management's efforts to ensure compliance with risk metrics. *(Is information reported to the board and management accurate and comprehensive? What actions have been taken when risk metrics are not met by the FHLBank?)*

Reporting

- 1) Evaluate senior management oversight of membership applications. *(Is there a review process for ensuring timely processing of membership applications? Is there a review process for membership denials? How does the FHLBank ensure that membership applications are well-documented and appropriately assessed?)*
- 2) Evaluate board reporting on the status of the FHLBank's strategic business plan goals and objectives as they relate to membership.

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- 3) Evaluate the adequacy and accuracy of reports used by management and the board of directors. *(Does the board receive reports regarding new members by type, i.e., insurance companies, banks, credit unions, etc, terminated members, and membership applications in process?)*

 - 4) Review the adequacy of the FHLBank's ongoing analysis and monitoring of its membership base. Analysis of the financial condition of members will likely occur in the FHLBank's credit function. Assess the adequacy of reporting to the FHLBank's board of directors and management regarding the FHLBank's membership base. *(Are membership levels changing? Are members availing themselves of FHLBank services? Is the FHLBank targeting marketing efforts to a particular kind of member? Does that member pose risks with which the FHLBank is not familiar?)*

Internal/External Audit

- 1) Evaluate the adequacy of the scope, testing, and workpapers completed by internal audit. *(Do procedures include sampling of membership applications, including approvals and denials, as well as on-going monitoring requirements?)*

- 2) Evaluate the adequacy of the scope and testing completed by external audit and determine the status of corrective actions for findings. *(Are all areas of potential risk considered? If not, why not? Are reasons for not including certain areas within the scope of the audit work reasonable and supported?)*

- 3) Evaluate the adequacy of the objectives and scopes of reviews performed by outside consultants and determine the status of management's actions regarding recommendations. *(Review the actions taken in response to consultant recommendations.)*

Information Technology

- 1) Identify and assess the automated and manual systems and applicable controls for marketing membership and processing membership activities, such as applications, withdrawals, mergers, and capital stock. Specific attributes to consider include:
 - a) Authorized users;
 - b) Authorized functions for each user;
 - c) Security of confidential information;
 - d) Interfaces with the advance and collateral systems;
 - e) Information on the FHLBank's website;
 - f) Utilization of spreadsheets; and
 - g) Business continuity and recovery.

Compliance

- 1) Evaluate if the FHLBank has appropriately complied with pertinent regulations and regulatory guidance. *(For instances of violations, identify the cause of the violation. Determine how internal controls should be strengthened to ensure there are no future regulatory violations.)*
- 2) Evaluate the efforts of the board and management to ensure compliance with policies and procedures related to the membership. *(Conclude on the appropriateness of these actions.)*

4. Testing

- 1) Review a sample of membership applications for completeness and compliance with 12 CFR 1263.
- 2) Review a sample of member information and verify accuracy with the FHLBank's management information systems and/or reporting applications.
- 3) Verify the accuracy of membership information reported to the FHFA.

5. Conclusions

- 1) Summarize conclusions for all examination work performed, including work performed by other FHFA staff as it relates to the FHLBank's membership. Develop a memorandum articulating the risks to the institution resulting from the membership practices and the FHLBank's management of those risks. The memorandum should describe the basis of conclusions reached and summarize the analysis completed. Within the memorandum, discuss the types of risk the FHLBank is exposed to (e.g., market, credit, operational); the level of risk exposure; the direction of risk (stable, decreasing, increasing); and the quality of risk management practices (strong, adequate, weak). A memorandum must be prepared irrespective of whether the examiner's assessment is positive or negative.
- 2) Conclude on the responsiveness to previous examination findings. Evaluate the adequacy of the FHLBank's response to previous examination findings and concerns.
- 3) Develop examination findings and prepare findings memoranda, as appropriate. Based on examination work performed, develop findings communicating concerns

identified during the examination. Findings should identify the most significant risks to the FHLBank and the potential effect on the FHLBank resulting from the concerns identified. Such documents should describe a remediation plan specifying the appropriate corrective action to address examination concerns and establish a reasonable deadline for the FHLBank to remediate the finding. Communicate preliminary findings to the EIC. Discuss findings with FHLBank personnel to ensure the findings and analysis are free of factual errors.

- 4) Develop a list of follow-up items to evaluate during the next annual examination. In addition to findings developed in the steps above, include concerns noted during the examination that do not rise to the level of a finding. Potential concerns include issues the FHLBank is in the process of addressing, but require follow-up work to ensure actions are completed appropriately. In addition, potential concerns should include anticipated changes to the institution's practices or anticipated external changes that could affect the institution's future oversight of membership practices.

Workprogram

1. Scope of Examination Work Performed

Workpapers must document the examination activities undertaken to evaluate potential risks related to FHLBank membership.

2. Description of Risks

- Identify areas of concern related to FHLBank membership
- Assess current risks and trends in the risk to the institution related to FHLBank membership
- Evaluate changes within the institution or industry affecting risk
- Evaluate the institution's risk-identification practices and conclude on their adequacy

3. Risk Management

- Assess and conclude on the adequacy of the institution's risk identification process
- Assess and conclude on the overall adequacy of internal controls, including an evaluation of:
 - The FHLBank's organizational structure
 - Policy and procedure development for this area
 - Appropriateness of risk metrics established in this area
 - Reporting by management and the board
- Assess and conclude on the internal and external audit of risks
- Assess and conclude on the adequacy of information technology and controls related to FHLBank membership
- Assess and conclude on the adequacy of the institution's efforts to ensure:
 - Compliance with laws, regulations and other supervisory guidance
 - Compliance with the institution's policies and procedures

4. Testing

- Complete testing, as appropriate, to assess adherence with examination standards

5. Conclusions

- Summarize conclusions for all examination work performed related to FHLBank membership
 - Conclude on the level of risk to the organization
 - Include an assessment of the adequacy of an institution's monitoring of risk and establishment of internal controls to mitigate risk
- Conclude on responsiveness to examination findings from previous examinations
- Develop examination findings, as appropriate
- Identify areas requiring follow-up examination activities or monitoring