



October 20, 2006

Federal Housing Finance Board  
1625 Eye Street, NW  
Washington, DC 20006

Attention: Public Comments

**RE:** Federal Housing Finance Board  
Notice: Examination Rating System for Federal Home Loan Banks  
and the Office of Finance  
Docket No. 2006-N-05  
71 FR 55181 (September 21, 2006)

Dear Sir or Madam:

America's Community Bankers<sup>1</sup> (ACB) is pleased to comment on the Federal Housing Finance Board's (Finance Board) proposed examination rating system for the Federal Home Loan Banks (FHLBanks) and the Office of Finance (OF). The proposed examination rating system has the potential to foster more effective communication of examination findings to the boards of directors and the management of the FHLBanks. ACB applauds this effort of the Finance Board to communicate with the representatives of the cooperative owners and support the proposed examination rating system. We have suggested improvements, which we describe later in our comment letter.

## **Background**

In 2005, the Finance Board's Office of Supervision began to provide an overall conclusion on the condition of each FHLBank after an examination, rating each Bank as Satisfactory (the highest rating), Fair, Marginal or Unsatisfactory. The proposed FHLBank rating system will result in a composite rating based on an evaluation of the following factors: corporate governance, market risk, credit risk, operational risk and financial condition or performance. Under the rating system, each of the components would be assigned a numeric rating from "1" to "4", with a "1" rating indicating the lowest degree of supervisory concern and a "4" indicating the highest degree of supervisory concern. In the notice, the Finance Board details the factors that would be considered in determining a rating for each of the five components. The

---

<sup>1</sup> America's Community Bankers is a national trade association representing banks and savings institutions. ACB members are member institutions of all 12 Federal Home Loan Banks, and collectively own more than 50 percent of the equity of the Federal Home Loan Bank System.

composite rating would not be based on an average of the five components. Instead, the relative importance of each component would be determined on a case-by-case basis.

## **Comments**

Under the current system, the aggregate assessment is expressed in terms that suggest that well-performing FHLBanks are mediocre performers. The proposed numeric system is a better way of expressing the examination findings of the Finance Board's supervision staff. The new system has the potential of providing a tool for the boards and the management of the FHLBanks to manage risks in the System. However, ACB believes that it is important the new examination ratings system, and indeed the entire examination process, be applied uniformly across the system. We are pleased that at the September 13<sup>th</sup> meeting of the Finance Board, Finance Board staff announced the formation of a unit under the Director of Supervision to review the examination reports for consistency in the application of the new rating system. While we believe this to be an important first step, we have an additional suggestion to insure consistency in the application of the new examination rating system and to enhance the objectivity of the examination process.

ACB believes that is important that the Finance Board establish an examination rating appeal process similar to the appeals process available to FDIC-insured institutions to review material supervisory determinations. We suggest that the review should be conducted by the Finance Board or some other review panel that includes at least one Board member and other person(s) who did not participate in the rating determination. We believe that such an appeals process would enhance the transparency of the examination process.

## **Conclusion**

Thank you for the opportunity to comment on this important matter. Should you have any questions, please contact Ike Jones at 202-857-3132 or at [ijones@acbankers.org](mailto:ijones@acbankers.org).

Sincerely,

A handwritten signature in black ink that reads "Ike Jones". The signature is written in a cursive, slightly slanted style.

Ike Jones  
Vice President and Legislative Counsel