



**MEMBERSHIP APPLICATION  
GUIDELINES**

November 17, 1993



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: I  
CHAPTER: Table of Contents                              PAGE: 1 of 3  
SUBJECT: Table of Contents                              DATE: November 17, 1993

### CHAPTER

- I. Table of Contents
- II. Statutory Requirements
  - A. Duly Organized
  - B. Subject to Inspection and Regulation
  - c. Makes Long-term Home Mortgage Loans
  - D. 10 Percent Residential Mortgage Loans Requirement
  - E. Financial Condition
  - F. Character of Management and Home Financing Policy Requirement
- III. Review Standards
  - A. Regulatory Examinations
  - B. Community Reinvestment Act Performance Evaluations
  - C. Capital
  - D. Earnings
  - E. Enforcement Actions
  - F. Audit Opinions
  - G. Performance Trends
  - H. Character of Management



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: I  
CHAPTER: Table of Contents                              PAGE: 2 of 3  
SUBJECT: Table of Contents                              DATE: November 17, 1993

### CHAPTER

- IV. Application Documentation
  - A. Sample Application Digest
  - B. Financial Condition Analysis and Outline - Commercial Banks and Thrifts
  - C. Financial Condition Analysis and Outline - Credit Unions
  - D. Financial Condition Analysis and Outline - Insurance Companies
  - E. Bank Management Certification
  - F. Bank Counsel Certification
  
- V. Approval Process
  - A. Delegation Criteria and Procedures
  - B. Complete Applications Requirements
  - C. Processing Time Frames
  
- VI. Capital Stock
  - A. Capital Stock Calculation
  - B. Capital Stock Purchase Procedures
  - C. ATIP Calculation and Borrowing Capacity





**STATUTORY REQUIREMENT: DULY ORGANIZED**

**The Applicant "is duly organized under the laws of any State or of the United States."**

**I. Background**

The statutory requirement stipulates that the Applicant be duly organized under federal or state laws. To date, this requirement has not posed any unusual policy questions for applicants.

**II. Documentation**

The following must be included in the digest:

1. The Applicant's organization and the names of any holding companies (both immediate and top tier), if applicable. The FHLBank must list any depository institution subsidiaries, indicating which are FHLBank members. State the consolidated asset size of the top-tier holding company and the date of the information in the digest. If the date of the holding company's consolidated assets differs from the date of the Applicant's asset size, please explain.
2. Where and when the Applicant was organized and chartered as well as the charter type (e.g., insurance company, national bank, state-chartered commercial bank, federal credit union, state-chartered savings **bank**).
3. The laws under which the Applicant was organized (e.g., banking, corporate, insurance) and the jurisdiction thereof (i.e., federal, or state-specific, references should be given).

**III, Special Conditions**

0 **None.**

**NOTE: Applicants** that fail this requirement are ineligible for membership.



**STATUTORY REQUIREMENT: SUBJECT TO INSPECTION AND REGULATION**

**The Applicant "is subject to inspection and regulation under the banking laws, or under similar laws, of the State or of the United States."**

**I. Background**

**An Applicant** must be subject to inspection and regulation under banking or similar laws of a state or federal regulatory agency. To date, this requirement has not posed any unusual issues as the financial institution charter types of Applicants have been regulated by either a state or federal regulatory agency.

**II. Documentation**

An application and digest should clearly identify the regulator(s) and the jurisdiction of the regulator(s). All agencies regulating the Applicant at the federal and state level (including situations in which the Applicant is regulated by more than one state) should be noted in the digest. -Acceptable regulators include the following: FDIC, FRB, NCUA, OCC, OTS and State.

The digest should note if the Applicant is a member of the Federal Reserve System.

**III. Special Conditions**

0 **None.**

NOTE: Applicants that fail this requirement are ineligible for membership.





# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: II-C  
CHAPTER: Statutory Requirements                      PAGE: 1 of 4  
SUBJECT: Makes Long-term Home                      DATE: November 17, 1993  
          Mortgage Loans

1. PURPOSE. This section sets forth procedures to determine if an Applicant meets the statutory eligibility requirement that the institution "makes such home mortgage loans as, in the judgment of the Board, are long-term loans."
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1424 (a)(1)(C); 12 C.F.R. §§ 933.1(i), (1); 933.4(a)(3).
3. SPECIAL CONDITIONS.
  - o Delegation criteria. An Applicant satisfies this statutory requirement for purposes of delegated approval if the institution makes long-term home mortgage loans.
  - o Home mortgage loans with a maturity of less than 5 years. The FHLBank must provide justification for approval of an Applicant that does not meet the regulatory definition.
  - o Mortgage banking operation.
  - o Other assets may be included as "home mortgage loans" subject to Finance Board approval on a case-by-case basis.

STATUTORY REQUIREMENT: MAKES LONG-TERM HOME MORTGAGE LOANS

The Applicant "makes such home mortgage loans as, in the judgment of the Board, are long-term loans."

I. Background

Long-term home mortgage loans have been defined by regulation as home mortgage loans with a term to maturity of five years or more or any other term to maturity which the Finance Board in its discretion determines is long-term. An Applicant may also qualify under this section by purchasing and holding eligible mortgage-backed securities.

The regulation provides that the following domestic assets qualify as "home mortgage loans": loans secured by first liens on one-to-four family or multi-family property, including loans secured by first liens on certain leaseholds, realty manufactured housing, dormitories, retirement homes, nursing homes, and single-room occupancy properties. Combination farm or business loans may be included for purposes of the "makes" requirement as long as at least 50 percent of the total appraised value of the combined property is attributable to the residential portion of the property. Eligible mortgage pass-through securities are also includable, but collateralized mortgage obligations are not eligible for inclusion for purposes of the "makes" requirement.

II. Documentation

1. Assets qualifying under the "makes" test must be disclosed by type including the total dollar amount and the total as a percentage of assets. The attached worksheet-(Exhibit A) provides a working approach for determining whether an Applicant satisfies this statutory requirement and compiling the necessary information for the digest. The worksheet must be included in the documentation sent to the Finance Board.
2. The maturity and amortization of home mortgage loans being used to qualify under this statutory requirement should be stated. State whether these loans are being originated presently or are being purchased.
3. Mortgage-backed securities ("MBS") must be disclosed as a dollar volume and a percentage of total assets. If the Applicant is being qualified on the basis of MBS state so in the digest.
4. The FHLBank must have documentation from the Applicant concerning the qualifying long-term home mortgage loans. Call Report data (or other financial statements filed with the appropriate regulator) must be used to confirm qualification under this requirement.

STATUTORY REQUIREMENT: MAKES LONG-TERM HOME MORTGAGE LOANS

III. Special Conditions

1. Delegation criteria. An Applicant satisfies this statutory requirement for purposes of delegated approval if the institution makes long-term home mortgage loans.
2. Home mortgage loans with a maturity of less than five years. If the Applicant does not hold home mortgage loans with a maturity of five years or greater, the FHLBank must describe in detail the home mortgage loans with a shorter duration it believes qualifies the Applicant as making "long-term" home mortgage loans.

The digest should contain a description of the terms of the home mortgage loans, including: the dollar amount; the amortization schedule; whether there are balloon payments; maturities; and whether and under what conditions the Applicant would "roll over" or refinance mortgages at maturity. Also note whether balloon mortgage loan rollover approvals are based only on a new rate acceptance by the borrower; whether any additional fees are charged at the rollover date, and if so, for what purpose; and how often rollovers are approved or denied.

The FHLBank's counsel must provide as an attachment to the digest a signed opinion with documentation and analysis supporting why the loan product qualifies as "long-term".

Applicants that do not satisfy the five years-or-more requirement are considered exceptions and are not eligible for processing under the delegated application approval process (See Chapter IV). They may be approved by the Finance Board, in its discretion, on a case-by-case basis.

3. Mortgage banking operation. If the qualifying home mortgage loans are being purchased and sold but not held, (i.e., engaging in mortgage banking), please provide documentation indicating the dollar volume and number of mortgage-backed securities issues or other home mortgage loans.

Additional documentation confirming the existence of such transactions may also be required, particularly if there is no evidence of qualifying home mortgage loans on the most recent Call Report or appropriate financial statements. A written confirmation of mortgage-backed securities or whole loan transactions would be sufficient.

4. If the Applicant does not satisfy the definition of makes long-term home mortgage loans, the Applicant may still qualify for membership approval on a case-by-case basis.

Exhibit A

**MAKES LONG-TERM HOME MORTGAGE LOANS:  
ASSESSMENT WORKSHEET**

Place an (X) next to all of the long-term home mortgage loans made by the Applicant (include loans originated that will subsequently be sold within the secondary market and those originated through subsidiaries):

<u>Original Maturity</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Amortization Period</u>
5-year balloon:	_____	_____	_____ years
7-year balloon:	_____	_____	_____ years
10-year balloon:	_____	_____	_____ years
15-year:	_____	_____	_____ years
30-year:	_____	_____	_____ years
Other: _____			

Other comments regarding home mortgage loan programs offered:

---

---

---

---

---

---

---

---



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: II-D  
CHAPTER: Statutory Requirements                      PAGE: 1 of 4  
SUBJECT: 10 Percent Residential                      DATE: November 17, 1993,  
            Mortgage Loans

1. PURPOSE. This section sets forth procedures to determine if an Applicant meets the statutory eligibility requirement that the institution "has at least 10 percent of its total assets in residential mortgage loans".
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1424 (a)(2)(A); 12 C.F.R. §§ 933.1(r); 933.4(b)(1).
3. SPECIAL CONDITIONS.
  - o Other assets may be included in the 10 percent calculation subject to Finance Board approval on a case-by-case basis.

**STATUTORY REQUIREMENT: 10 PERCENT RESIDENTIAL  
MORTGAGE LOANS REQUIREMENT**

**The Applicant "has at least 10 percent of its  
total assets in residential mortgage loans."**

**I. Background**

The Federal Home Loan Bank Act requires that, in order to qualify for membership, an insured depository institution must have residential mortgage loans ("RML") equal to at least 10 percent of total assets. Because the statute explicitly requires only insured depository institutions to hold 10 percent of their total assets in residential mortgage loans, the regulation does not apply the 10 percent requirement to insurance companies. Thus, all Applicants except for insurance companies are required to meet the 10 percent test upon approval, based upon the most recently available regulatory financial statements. Once approved, an institution is not required to maintain a 10 percent RML ratio to retain its membership.

The regulation provides that the following domestic assets are included in the definition of "residential mortgage loans": home mortgage loans; loans secured by junior liens on one-to-four family or multifamily property such as home equity loans; eligible mortgage pass-through securities; funded residential construction loans; home mortgage loans secured by certain leasehold interests; eligible mortgage debt securities including FNMA and FHLMC collateralized mortgage obligations; and privately-issued collateralized mortgage obligations. Realty and consumer manufactured housing, dormitory, retirement home, nursing home, and single-room occupancy loans are included within this definition. Combination farm or business loans may be included for purposes of the 10 percent requirement as long as at least 50 percent of the total appraised value of the combined property is attributable to the residential portion of the property. Certain other assets may be included in the 10 percent calculation, subject to Finance Board approval on a case-by-case basis.

**II. Documentation**

The RML ratio must be calculated based on quarter-end data. The FHLBank is required to report the RML ratio to the Finance Board in the digest.

The FHLBank may use Call Report data (or other appropriate regulatory financial statements) adjusted for information provided by the Applicant for Call Report line items that are not sufficiently detailed for a precise RML ratio calculation. The

STATUTORY REQUIREMENT: 10 PERCENT RESIDENTIAL  
MORTGAGE LOANS REQUIREMENT

information provided by the Applicant must be documented by the Applicant's internal reports which provide the data requested by the FHLBank. The FHLBank should then compare the reported information to Call Report data as a "reasonability" check.

III. Calculation of the 10% Residential Mortgage Loans Requirement

The following information from the Call Report may be used in calculating the 10% requirement:

1. 1-4 family residential mortgage loans. Add RC-C lines 1.c.(1) and (2)(a) & (b) which include construction loans with terms to maturity over five years. Subtract out vacant lot loans and unfunded construction loans. The amounts of vacant lot loans and unfunded construction loans are not broken out on the Call Report and must be obtained from the Applicant.
2. Multifamily residential mortgage loans. Add RC-C line 1.d. which includes construction loans with terms to maturity over 5 years. Subtract out vacant lot loans and unfunded construction loans.
3. Funded residential construction loans. Add RC-C line 1.a. which includes only such loans with terms of 5 years or less, but subtract out unfunded loans, nonresidential loans and land development loans.
4. Consumer loans. Add RC-C line 6.(b) which includes mobile home loans not secured by real estate, but subtract out other consumer loans, such as auto and educational loans.
5. PCs & Pass-throughs. Add RC-B line 4A & 4B <sup>del lines</sup> FNMA/FHLMC participation certificates ("PCs") and pass-throughs, RC-B line 4.a.(2) -- GNMA guaranteed PCs and pass-throughs, and RC-B line 4,a.b private PCs and pass-throughs.
6. Mortgage-derivative securities. Add RC-B line 4.b.(1) -- FNMA/FHLMC CMOs and REMICs, and RC-B line 4.b.m -- private CMOs and REMICs, and that portion of RC-F line 4 -- other assets -- representing CM0 residuals, <sub>463</sub>

Additional loans that may be used to satisfy the 10% residential mortgage loans requirement, if needed, include the following loans which must be obtained from the Applicant:

1. Combination farm loans where at least 50% of the total appraised value of the combined property is attributable to the residential portion of the property.

STATUTORY REQUIREMENT: 10 PERCENT RESIDENTIAL  
MORTGAGE LOANS REQUIREMENT

2. Combination business loans where at least 50% of the total appraised value of the combined property is attributable to the residential portion of the property.
3. Other loans such as SRO, dormitory, retirement home, nursing home, and consumer manufactured housing loans. Please note the breakdown by type of loan and dollar amount.

**IV. Special Conditions**

1. Other assets. Other types of loans not listed here or in the regulation which are residential in nature may also qualify for the 10 percent requirement and will be reviewed by the Finance Board on a case-by-case basis.

NOTE: Applicants that fail this requirement are ineligible for membership.





# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: II-E  
CHAPTER: Statutory Requirements                      PAGE: 1 of 2  
SUBJECT: Financial Condition                              DATE: November 17, 1993

1. PURPOSE. This section sets forth procedures to determine if an Applicant meets the statutory eligibility requirement that the institution's "financial condition is such that advances may be safely made to such institution."
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1424 (a)(2)(B); 12 C.F.R. § 933.4(a)(4).
3. SPECIAL CONDITIONS.
  - o Additional justification
  - o Lending conditions

**STATUTORY REQUIREMENT: FINANCIAL CONDITION**

**The Applicant's "financial condition is such that advances may be safely made to such institution."**

**I. Background**

The financial condition of the Applicant is determined by an analysis of the Review Standards discussed in Chapters III-A through III-H, as well as the recommendations and conclusions of the financial condition analysis (See Chapters IV-B, IV-C and IV-D for sample financial condition analyses). The results of the financial condition analysis provide critical evidence for satisfying this statutory requirement. If it is determined that an institution's financial condition is unsatisfactory, the Applicant must be deemed ineligible for membership.

**II. Documentation**

1. Recommendation and conclusions of the financial condition **analysis,**
2. Satisfaction of the Review Standards set forth in Chapter III, especially the first and the third through the seventh.
3. Based on a credit review, recommendation on ability to extend advances to the Applicant under the FHLBank's credit policies.
4. Recommendation as to whether this statutory requirement is met.

**III. Special Conditions**

1. Additional Justification. If an Applicant fails to satisfy any of the general requirements that relate to financial condition, additional justification for approval is required. Discussion in the financial condition analysis is particularly important in this regard.
2. Lending Conditions. If the Applicant's financial condition is such that the FHLBank will lend to the Applicant only on an exception basis under the FHLBank's credit policies, please provide an explanation for this conclusion.

NOTE: Applicants that fail this requirement are not eligible for membership.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: II-F  
CHAPTER: Statutory Requirements                      PAGE: 1 of 5  
SUBJECT: Character of Management                      DATE: November 17, 1993,  
            and Home-Financing  
            Policy

1. PURPOSE. This section sets forth procedures to determine if an Applicant meets the statutory eligibility requirement that "the character of its management and its home-financing policy are consistent with sound and economical home financing."
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1424 (a)(2)(C); 12 C.F.R. § 933.4(a)(5).
3. SPECIAL CONDITIONS.
  - o Examples of situations that require additional justification in order to demonstrate compliance.

**STATUTORY REQUIREMENT: CHARACTER OF MANAGEMENT  
AND HOME-FINANCING POLICY**

**"The character of [the Applicant's] management  
and its home-financing policy are consistent  
with sound and economical home financing."**

**I. Background**

**This** statutory requirement has been interpreted to require that the Applicant operate in a manner consistent with safe and sound banking and lending practices. It is evaluated on the basis of the Review Standards, especially the second and the eighth Review Standards discussed in chapters III-B and III-H.

The character of management qualification requires submission of a determination that the Applicant, its directors and senior officers are not subject to any criminal, civil or administrative proceedings against the designated officials or the institution reflecting on creditworthiness, business judgement or moral turpitude since the last examination by its primary regulator, and that there are no known potential monetary liabilities, material pending lawsuits or unsatisfied judgments against the institution. **There** should also be a review of examination reports for any evidence of a pattern of poor judgment on the part of management which may be grounds for a determination that the institution does not comply with this requirement.

The Finance Board currently determines qualification under the home-financing policy requirement based on the most recent Community Reinvestment Act ("CRA") rating and a review of the Applicant's lending policies to demonstrate that established policies are consistent with the FHLBank System's home-financing mission. In addition, the financial condition of the Applicant is also relevant in determining whether the Applicant is in compliance with this requirement.

**II. Documentation**

1. An individual delegated the authority to sign on behalf of the Applicant's board of directors must certify that neither the institution nor any of its directors or senior officers has been the subject of any relevant criminal, civil or administrative proceeding reflecting on creditworthiness, business judgment or moral turpitude since the last examination by its primary regulator, and that there are no known potential monetary liabilities, material pending lawsuits or unsatisfied judgments against the institution.

STATUTORY REQUIREMENT: CHARACTER OF MANAGEMENT  
AND HOME-FINANCING POLICY

The FHLBank <sup>or Westlaw</sup> is encouraged, but not required, to use a Lexis/Nexis search as confirmation. See Exhibit A for a sample certification. This required certification represents a change from prior policy.

2. CRA documentation is discussed under Chapter III-B.
3. The Applicant should provide in its application to the FHLBank a copy of its home-financing policy or equivalent lending policy and a list of residential mortgage products offered detailing maturity and terms.

III. Special Conditions

Presented below are examples of situations that require additional justification in order to demonstrate compliance with the character of management requirement:

1. An institution in weak or deteriorating financial condition, or with examination criticisms related to problems regarding management judgment or controls. Examples of such criticisms include: inadequate loss allowance in order to improve reported earnings; dividend pay-outs greater than 100 percent of net income; unsatisfactory underwriting standards; inconsistent/inaccurate valuation methodology; or substantive violations of law (e.g., § 23A - Loans to Affiliates).
2. Misrepresentation of financial statements.
3. Lawsuits that are material in nature reflecting upon the Applicant's decision-making or lending operations.

Any lawsuits material in nature against the Applicant, its directors or management must be explained in detail in the application and similarly summarized in the digest. The FHLBank shall make a "materiality" determination using the following guidelines: (1) dollar amount of lawsuit, (2) potential financial exposure (less any insurance coverage) relative to capital, and (3) nature of the lawsuit, i.e., whether the claim arises outside of normal business practices.

**STATUTORY REQUIREMENT: CHARACTER OF MANAGEMENT  
AND HOME-FINANCING POLICY**

Presented below are examples of situations that require additional justification in order to demonstrate compliance with the home-financing policy requirement:

1. A below satisfactory CRA rating (less than a "2" or less than "Satisfactory"). Requires additional analysis and justification for a recommendation for approval. (Chapter III-B discusses this issue in greater detail).
2. Lack of a commitment to housing as represented by a below satisfactory housing policy or no housing policy at all, or failure to comply with any other factor deemed appropriate by the FHLBank.

NOTE: Applicants that fail these requirements are not eligible for membership.

Exhibit A

Applicant Name: \_\_\_\_\_

Officer Certification on  
Corporate, Director, and Senior Officer Conduct

This is to certify that, except as set forth below, neither the Applicant nor any of its directors or senior management has been the subject of any criminal, civil or administrative proceedings reflecting on creditworthiness, business judgment, or moral turpitude since the most recent examination by the institution's primary regulator; and that there are no known potential monetary liabilities, material pending lawsuits, or unsatisfied judgments against the institution,

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
President



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: III-A  
CHAPTER: Review Standards                              PAGE: 1 of 5  
SUBJECT: Regulatory Examinations                      DATE: November 17, 1993

1. PURPOSE. This section sets forth general requirements of and procedures for satisfying the Finance Board Review Standard for regulatory examinations for the financial condition statutory requirement.
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1442(a); 12 C.F.R. §§ 933.4(a)(4), 933.18(b).
3. SPECIAL CONDITIONS.
  - o Below satisfactory ratings
  - o Stale examinations
  - o State examinations
  - o No examination
  - o Off-site examinations
  - o Delegation
  - o Insurance companies



## REVIEW STANDARD: REGULATORY EXAMINATIONS

### I. Background

At the conclusion of both federal and state supervisory examinations, BIF-insured financial institutions and credit unions receive a composite CAMEL rating summarizing the examination agency's assessment of the institution. The rating is based on a "1" to "5" scale with a "1" being the best rating. The FHLBank must review and report on the most recent (i.e. either state or federal) examination findings of the Applicant.

### II. Documentation

1. Obtain and review the Applicant's most recent examination report. In the examination request letter, ask if the most recent exam report is over two years old. If so, ask that the regulator indicate when the next examination is scheduled to occur, if possible. Provide the Applicant's CAMEL or equivalent rating, the date of the rating and the name of the regulatory agency in the digest.
2. In the financial condition analysis, summarize the Applicant's strengths and weaknesses (criticisms) cited in the examination and actions taken by the Applicant to respond to examination weaknesses. Use a "bullet-point" format. (See Sample Analyses, Chapter IV)
3. Document verbal comments by regulators giving the following details:
  - Date of contact
  - Contact's name and title
  - Agency name and address
  - Contact's telephone number
  - Highlights of the discussion

### III. Special Conditions

1. CAMEL ratings of "3" through "5" are considered below satisfactory by rating agencies. Such ratings require additional documentation including evidence of the Applicant's efforts to improve its rating. Specifically, note the following:
  - o Reasons for such rating and specific management actions to improve the condition and/or achieve compliance. When possible, provide financial ratios and data to support that the condition(s) has improved. Use a bullet-point format.

REVIEWSTANDARD: REGULATORY EXAMINATIONS

- o Copies of documentation from the Applicant or the Applicant's regulator to the FHLBank which clarify the examination findings or confirm progress since the date of the examination.
  - o Indicate when the next examination is scheduled to occur,
2. Stale Examinations. An examination is considered to be stale when the most recent examination and CAMEL rating are dated more than two years prior to receipt of the application at the Finance Board. For example, if the closing date of an Applicant's examination report was January 1, 1990, and the application package was received at the Finance Board after January 1, 1992, the examination rating is considered "stale" and the following requirements shall apply:
- o Note the existence of a stale rating in the digest.
  - o If the exam report is stale and the regulator does not notify the FHLBank of the next scheduled examination date as requested, verbally confirm with the appropriate regulator(s) that a more recent examination has not been scheduled or conducted, if possible. Indicate in the digest the contact name and date of contact.
  - o Conduct a review of the stale examination and report findings as instructed above.
  - o Indicate in the digest whether the Applicant's financial condition has changed materially since the last examination. Include a group of short bullet-points commenting on asset growth, asset quality, earnings performance, capital adequacy and growth, loss allowance adequacy and management changes. If there have not been material changes, a statement must be included in the digest to the effect that based upon the analysis performed in connection with the membership application, the FHLBank believes that the Applicant's financial condition has not changed materially since the last  
e t -
  - o Provide justification for approval based on trends in financial condition since the most recent examination.

**REVIEW STANDARD: REGULATORY EXAMINATIONS**

3. State Examinations. If the most recent examination was performed by a state regulatory agency, obtain the examination report and rating if possible. Should the FHLBank be refused access to the examination report, provide written documentation of the efforts undertaken to obtain the report. The letter requesting the report and a response from the regulator is preferred documentation.

If arrangements to share such confidential data have been pursued with the state, provide the letter requesting this and any response from the state agency. Alternatively, note in the digest that the FHLBank has a "blanket letter" from the state indicating that the state is prohibited by law to release confidential examination-data. If the letter is older than one year, please renew the request.

If the FHLBank is able to obtain the rating but not the examination report, please indicate the rating in the digest with the date and name of the regulator. In all cases, at a minimum, obtain and review the more dated federal examination report and attach all documentation of efforts to secure the state examination report.

4. No Examination. If the Applicant is a de novo institution, a recently merged institution, or an institution that has converted from a state insurance charter to a federal insurance charter, an examination may not have been conducted to date. The lack of an examination and justification for approval should be stated in the "justification" section of the digest. (See Chapter VIII-A for procedures related to de novo institutions and Chapter VIII-B for procedures related to recently merged institutions.)

Indicate the following in the Review Standards section:

- o Reason no examination has been conducted;
- o Name and date of regulatory contact who confirmed that no examination has been conducted;
- o Approximate date of next scheduled examination, if available. If an examination has not been scheduled, indicate the regulator's best estimate of the date of the next examination;
- o Provide a copy of the FHLBank's letter requesting a copy of the examination report.

REVIEW STANDARD: REGULATORY EXAMINATIONS

5. Off-site Examinations. There is no substitute for an on-site visit. However, if the most recent examination was "off-site", then obtain and review the examination report as well as the most recent "on-site" examination report. The "on-site" examination is considered the most relevant, since "off-site examinations" may simply be off-site monitoring and not as definitive. Provide the ratings from both examinations and summarize the Applicant's strength and weaknesses described therein. Indicate the approximate date of the next scheduled on-site examination.
6. Delegation. If the CAMEL ratings for the on-site and off-site exams are both "1" or "2", the application is eligible for consideration under delegation if the Applicant qualifies under all of the other delegation criteria discussed in Chapter V-A. If the CAMEL rating on either of the two exams is a "3", the application must be sent to the Finance Board for approval.
7. Insurance Companies. Insurance companies are examined by the state insurance commissioner in the state in which the company is chartered, but they do not receive a composite rating comparable to the CAMEL rating. Nevertheless, the FHLBank should obtain the State insurance examination report and summarize the results as it would for insured depository institution Applicants.

The FHLBank should obtain two or more current ratings from any of the major independent rating agencies if readily available. Insurance rating agencies include A.M. Best, Moody's, Standard and Poors, Duff & Phelps, Fitch Investor Services and Weiss Research.

Provide the date, rating, rating scale and agency. A narrative description of the rating, summary comments by the agency and the type of rating (such as claims-paying ability) should also be provided. If the insurance company has not been rated by an independent agency, the lack of a rating and the reason should be disclosed in the digest.



REVIEW STANDARD: COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION

I. Background

The CRA generally requires that thrifts and commercial banks provide credit throughout their market area. 12 U.S.C. § 2901 et seq. The CRA defines specific requirements of the banks and thrifts in documenting and discharging their community investment responsibilities. Bank and thrift regulatory agencies supervise and examine these depository institutions to determine compliance with the CRA.

CRA Performance Evaluation reports after July 1, 1990 have descriptive ratings of "Outstanding", "~~Satisfactory~~", "~~needs~~ to Improve", and "Substantial Noncompliance". CRA ratings preceding this date have numeric ratings on a "1" to "5" scale with a "1" representing the best rating.

The CRA rating is to be used as part of the determination of whether the institution's "home financing policy is consistent with sound and economical home financing." Applicants with CRA ratings of "1", "2", "Outstanding", or "Satisfactory" in most cases are considered in compliance with the Review Standard related to the CRA. If the CRA rating is below "Satisfactory" or a "2", it requires additional justification for membership approval.

II. Documentation

1. Obtain and review the Applicant's most recent CRA Performance Evaluation. Provide the Applicant's CRA rating, the date of the rating and the regulatory agency that conducted the evaluation.

If the evaluation occurred after July 1, 1990, only a review of the public disclosure portion of the CRA evaluation is required.

2. Summarize the Applicant's compliance with the CRA and activities undertaken to achieve or maintain compliance.

III. Social Conditions

1. Evaluation Unavailable. If the rating but not the actual evaluation is available from the regulator, that information should be noted in the Digest. The effort to obtain the evaluation through the appropriate regulatory agency must be documented. Submit with the digest any correspondence related to the inability to locate the evaluation.

**REVIEW STANDARD: COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

2. Not Subject to CRA. Credit union and insurance company applicants are not subject to the CRA and, therefore, will not have a CRA rating. The digest for such institutions should state that a CRA rating is not required.

Information about the Applicant's efforts relating to its community investment and housing finance activities is required to ensure adherence to the FHLBank System's housing finance mission.

- Describe in general how the Applicant has demonstrated support for the FHLBank System's housing finance mission.
- Obtain documentation and a description from the Applicant demonstrating how the Applicant's credit policies and lending practices (if applicable) meet the credit needs of its community.

3. No CRA Rating., If the Applicant has not had a CRA evaluation and, therefore, does not have a CRA rating (e.g., a de novo or a recently merged institution), that fact must be documented. The FHLBank must provide a discussion of how the Applicant intends to comply with the CRA, as well as efforts expended thus far to ensure compliance. In addition, the FHLBank shall request and submit a description of how the Applicant's credit policies and lending practices meet the credit needs of its community.

For recently merged institutions with no CRA rating for the merged entity, the FHLBank must review the CRA evaluation of the acquirer and provide the CRA rating and the date of evaluation for each party to the merger.

4. Below satisfactory CRA Ratings. CRA ratings of "3", "4", "5 " "Needs to Improve" or "Substantial Noncompliance" are considered below satisfactory by the rating agencies. Such ratings require additional documentation including evidence of the Applicant's efforts to improve its rating. Special procedures are described below:

**IV. Below Satisfactory CRA Ratings**

**A. Procedures**

1. The FHLBank should list in bullet-point format the CRA deficiencies or criticisms cited in the CRA Performance Evaluation or in any compliance examination report and

REVIEW STANDARD: COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION

assess the Applicant's efforts to respond to the stated deficiencies. Supporting documentation and the basis for those assessments must be provided.

2. In addition to an assessment of the Applicant's deficiencies regarding CRA, the FHLBank should furnish, if available: correspondence from the regulator; any follow-up CRA review; relevant board actions concerning its efforts to correct deficiencies; public comment regarding Applicant's CRA programs; and documentation about studies or consulting work that the Applicant has commissioned or done internally to revise its policies and procedures.
3. The Applicant should furnish the FHLBank with documentation of its efforts to improve its CRA deficiencies. As appropriate, the FHLBank should discuss the Applicant's progress in correcting CRA deficiencies in order to verify that the Applicant is making substantial progress.

Written documentation regarding the Applicant's satisfactory progress is preferable to verbal conversation with the regulator. If written correspondence from the regulator is not provided or is insufficient to illustrate progress for all cited deficiencies, justification for approval must be provided in the digest. Correspondence between the regulator and either the FHLBank or the Applicant is the preferred documentation and is likely to carry more weight.

B. Documentation

Information related to Applicants with below satisfactory CRA ratings is submitted to the Housing Finance Directorate ("HFD") for review. Continued processing of the application depends on HFD concurrence. All discussion and communication relating to the application must be addressed to the District Banks Directorate.

The following information, if available, must be submitted to the Finance Board for Applicants with below satisfactory CRA ratings:

1. The public disclosure section from the Applicant's most recent CRA Performance Evaluation (post-July 1, 1990 examinations);
2. The CRA rating from the evaluation prior to the most recent evaluation;



REVIEW STANDARD: COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION

3. Correspondence between the Applicant and its regulator related to actions undertaken to improve the Applicant's CRA performance including programs established since the evaluation;
4. A statement from the Applicant, as submitted to the FHLBank, regarding steps taken to improve CRA performance subsequent to the evaluation; and
5. Any additional information the Applicant chooses to submit to present an up-to-date and accurate description of its CRA activities.



## REVIEW STANDARD: CAPITAL

### I. Background

All financial institutions are subject to capital requirements. Thrifts and commercial banks are subject to leverage and risk-weighted capital requirements. In certain circumstances, including for some de novo institutions and some institutions under supervisory agreements, such thrifts and commercial banks may be subject to additional capital requirements. Although credit unions do not have similar specific mandated requirements, regulators compare credit union capital ratios to their peer group in reviewing their capital adequacy. Credit unions must transfer a certain percentage of income to reserves if their statutory reserves as a percent of risk assets fall below certain prescribed levels. Insurance companies are typically required to maintain a certain dollar amount of capital and surplus but not a specific capital ratio.

The required capital ratios may change from time to time. The FHLBanks are encouraged to remain current with changes in capital requirements. As it becomes aware of such changes, the Finance Board will communicate these changes to the FHLBanks.

The Applicant's regulatory capital requirements and actual ratios are to be provided in the digest and financial condition analysis. The capital information in the digest should be based on the most recent quarter-end regulatory report available. The FHLBank must obtain the information from the Applicant, as reported to its regulator, and not calculate the ratios or assume capital requirements based upon the CAMEL rating. Institutions with assets less than \$1 billion that are well-capitalized are not required to complete risk-based or leverage capital reports. In this case, the Applicant and the FHLBank **may** use the estimated capital ratios reported in the Uniform Bank Performance Report ("UBPR").

### II\* **Documentation**

#### 1. Commercial Banks and Thrifts

The FHLBank shall provide the name of the regulator, the risk-based and leverage capital ratios, the minimum requirements for each ratio, and the date of the calculation. The FHLBank should explain the reason that ratios other than the leverage and risk-based ratios are required.

## REVIEW STANDARD: CAPITAL

In order to demonstrate compliance with the total capital to risk-weighted assets ratio, the FHLBank should request that the Applicant provide the actual ratio and subsequently confirm the calculation. For institutions that may not be required by the regulator to calculate a risk-weighted ratio, the FHLBank should use Call Report data to calculate an estimated ratio and verify that the ratio exceeds the minimum requirement. This latter option is not the preferred methodology, as precise capital ratio calculations require more detailed information than is provided on the Call Report.

Capital ratios should be carried out to two decimal points.

### 2. Credit Unions

Credit unions are not required to meet minimum regulatory capital requirements. Credit union capital ratios are compared to their peer group in reviewing their capital adequacy. A certain percentage of income must be transferred to reserves if the credit union's statutory reserves as a percent of risk assets fall below 6 percent.

The FHLBank shall provide the name of the regulator and a description of the required ratio, such as statutory reserves to outstanding loans and risk assets. If the latter ratio is less than 6 percent, a credit union is required to make transfers of 5 percent of gross income (10 percent, if the ratio is below 4 percent). The FHLBank must state and provide documentation that this transfer has been made.

### 3. Insurance Companies

Insurance companies do not have minimum regulatory capital requirements. They must simply meet a minimum dollar amount established upon approval of the charter.

Absent regulatory requirements, the FHLBank must analyze the adequacy of the company's capital relative to the insurance industry and to its peer group. The FHLBank will take into account such factors as the company's investment strategy, product mix and ability to raise additional capital.

## REVIEW STANDARD: CAPITAL

The insurance industry is currently in the process of developing a measure for appropriate levels of risk adjusted capital. This measure, once approved by the National Association of Insurance Commissioners ("NAIC"), shall become a requirement of the application digest. In the interim, the FHLBank must provide an estimate of the company's risk adjusted capital ratio from the Insurstat report.

### III. Special Conditions

1. Special Capital Requirements. Additional capital ratios and higher requirements must be noted in the digest. Examples of institutions that may have special capital requirements include de novo institutions and institutions under supervisory agreements.
2. Capital Plans. The digest must indicate whether the Applicant is under a regulator-mandated capital plan, a description of the requirements of the plan, and whether the Applicant is in compliance with the plan.

Include copies of correspondence between the Applicant and regulator, if appropriate. The Finance Board does not consider an Applicant that is in compliance with a capital plan to be in compliance with its minimum regulatory capital requirements. Accordingly, the FHLBank must provide sufficient justification for approval, as explained above.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications

CHAPTER: III-D

CHAPTER: Review Standards

PAGE: 1 of 3

SUBJECT: Earnings

DATE: November 17, 1993

1. PURPOSE. This section sets forth general requirements of and procedures for satisfying the Finance Board Review Standard for earnings for the financial condition statutory requirement. Generally, the institution must have been profitable in at least four of the most recent six quarters.
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1424(a)(2)(B); 12 C.F.R. § 933.4(a)(4).
3. SPECIAL CONDITIONS.
  - o Zero income is not considered a profitable quarter
  - o Securities gains/losses and extraordinary items must be examined
  - o Credit unions report semi-annually and quarterly
  - o De novo institutions
  - o Recent and pending mergers

## REVIEW STANDARDS: EARNINGS

### I. Background

Compliance with this Review Standard in most cases requires an Applicant to be profitable in at least four of the most recent six quarters. The FHLBank shall present in the digest the number of profitable quarters among the last six for all institutions.

Applicants that may be eligible for delegated approval must be profitable in the most recent quarter. This calculation must be performed net of securities gains/losses and extraordinary items. (See Chapter V-A for procedures related to the delegation criteria.)

### II\* Documentation

1. Provide the number of profitable quarters in the last six quarters and the date of the final quarter under review. Call Report data must be the basis for this determination. This information should appear in the digest and the financial condition analysis.
2. If the Call Report has been amended since the original submission and the revision resulted in a change in profitability for the quarter, please provide the revised information in the digest with a notation.
3. If the Applicant has not been profitable in four of the six most recent quarters, the FHLBank is required to provide additional justification for approval.

### III. Special Conditions

1. Zero profit. A "0" profit is not considered a profitable quarter for purposes of this Review Standard.
2. Securities gains and extraordinary items. Indicate whether any profitable quarters were due solely to securities gains or extraordinary items.
3. Credit unions. Credit unions reporting on a semiannual basis generally must show profitability in at least three of the last four semiannual periods to meet this Finance Board Review Standard. Credit Unions filing on a quarterly basis generally must show a profit for at least four out of the six most recent quarters to meet the Review Standard. If the credit union does not show such profitability, additional justification is required for approval,

## REVIEW STANDARDS: EARNINGS

For credit unions beginning to file quarterly, a phase-in process will be used until six quarters of Call Reports are available.<sup>2</sup>

- o If the number of quarters being used is greater than or equal to the number of semiannual periods, obtain the six most recent filing periods of Call Reports;
  - o If the number of quarters being used is less than the number of semiannual periods, obtain the four most recent filing periods of Call Reports.
4. De novo institutions. Provide any quarterly information available for Applicants in business fewer than six quarters (or four semiannual periods as applicable). Further discussion about projected profitability should be contained in the FHLBank's review of the institution's business plan and financial condition analysis. (See Chapter VIII-A for detailed procedures regarding de novo applicants.)
  5. Pending and recent mergers. Review earnings over the most recent six quarters by combining the earnings on a pro forma basis for those quarters prior to the merger or acquisition.

<sup>2</sup> The NCUA amended section 741.13 of its regulations to require that all credit unions with assets of \$50 million or greater file Financial and Statistical Reports ("Call Reports") on a quarterly basis beginning March 31, 1993. See 58 Fed. Reg. 5571 (January 22, 1993). Those credit unions with total assets of \$100 million or greater began filing quarterly Call Reports on March 31, 1992.





# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: III-E  
CHAPTER: Review Standards                              PAGE: 1 of 5  
SUBJECT: Enforcement Actions                              DATE: November 17, 1993

1. PURPOSE. This section sets forth general requirements of and procedures for satisfying the Finance Board Review Standard for enforcement actions for the character of management statutory requirement. Generally, the institution or its management must not be subject to any enforcement actions.
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1424(a)(2)(C); 12 C.F.R. § 933.4(a)(5).
3. SPECIAL CONDITIONS.
  - o Board resolutions
  - o Enforcement actions executed with insufficient time to achieve compliance
  - o Plans of action.

## REVIEW STANDARD: ENFORCEMENT ACTIONS

### I. Background

Regulators may bring enforcement actions against institutions to prevent further or possible deterioration in financial condition or the perpetuation of serious CRA deficiencies. An enforcement action is determined to be in force when the regulator has initiated actions to secure a signed notice of enforcement action from the institution. Enforcement actions include Letters of Commitment and Memoranda of Understanding or other written agreements, which are considered r-enforcement actions. Enforcement actions also include temporary or final cease and desist orders, civil money penalties, suspensions or removals of directors and officers from office and prohibitions from further participation, and temporary suspensions or terminations of insurance, which are considered formal enforcement actions under 12 U.S.C. § 1818 and enforceable in court. State regulatory agencies may have other enforcement powers. It is critical that a FHLBank be aware of the existence of any such enforcement actions and that it determine the Applicant's compliance with any orders as required by the regulator(s). The FHLBank should review all documentation and related correspondence between the Applicant and its regulator regarding the enforcement action in effect.

#### Federal Enforcement Actions in Order of Severity:

1. Letter of Commitment or Commitment Letter. This letter typically states the weaknesses cited in the examination and is signed by both the regulator and the board of directors of the institution with corrective action to be undertaken.
2. Memorandum of Understanding. This document outlines a plan of action the institution is required to implement to correct what are usually considered more serious deficiencies in its operations. It can require periodic reports to the regulator, or revised policies and procedures.
3. Temporary or Final Cease and Desist Order. This action requires the institution to cease and desist from certain actions and to make certain affirmative changes in bank operations. Temporary cease and desist orders become effective immediately upon service of the order upon the institution, and remain in effect pending completion of the administrative proceedings. Final cease and desist orders become effective only after the completion of the administrative proceedings.

## REVIEW STANDARDS: ENFORCEMENT ACTIONS

Civil Money Penalties. Civil money penalties may be assessed in the event of non-compliance with an enforcement agreement or order. The FHLBank must disclose any civil money penalties assessed as discussed in the most recent examination or subsequent thereto, the amount, and whether assessed against any current employees of the Applicant.

5. Suspension or Removal from Office or Prohibition from Further Participation. A suspension or prohibition order suspends a director or officer from office or prohibits such person from further participation in any manner in the conduct of the affairs of the institution if the agency determines such action is necessary for the protection of the institution or the interests of its depositors. The order becomes effective immediately and remains in effect until the completion of the administrative proceedings.

A final removal or prohibition order removes a director or officer from office or prohibits such person from further participation in any manner in the conduct of the affairs of the institution, and becomes effective only after the completion of the administrative proceedings.

6. Temporary Suspensions or Terminations of Insurance. A temporary suspension of insurance order suspends deposit insurance on all deposits received by an institution if the institution has no tangible capital. The order is effective not earlier than 10 days from the date of service upon the institution, and remains in effect pending the completion of the administrative proceedings.

A termination of insurance order terminates the insured status of the institution, and is effective only after the completion of the administrative proceedings.

In addition, where an institution agrees to comply with an enforcement action without challenging it through the administrative process, the regulator issues a consent order which is signed by the institution.

## II, Documentation

1. Report the existence of any enforcement action. The digest should indicate the type of action, date of the action and the regulator initiating the action.

## REVIEW STANDARDS: ENFORCEMENT ACTIONS

2. Obtain a copy of the action, if not provided in the examination report, any subsequent progress reports and regulatory agency indication of compliance, if available. Note any comments made in the report specifically regarding the enforcement action.

The most likely source of regulatory agency compliance information is a subsequent examination. The FHLBank is encouraged but not required to indicate whether the Applicant has been the subject of an enforcement action that has been terminated.

3. In the additional justification section of the digest, summarize the requirements of the enforcement action, whether the institution is in "substantial compliance", "partial compliance" or "non-compliance" for each of the requirements, and the basis for that determination. For areas of partial or non-compliance, include a summary of anticipated actions and time frames to achieve total compliance. In all cases, where appropriate, provide relevant financial ratio analysis which may demonstrate progress toward compliance.

Written correspondence from the regulator related to the enforcement action is the preferred documentation for evidence of compliance. If such documentation is lacking, a memorandum summarizing a discussion with the regulator may suffice if the information is definitive and not so general as to be inconclusive. The least acceptable documentation is a written summary of discussions with the Applicant. Depending upon the quality of the information provided and the type of action in effect, the last two forms of documentation may not be acceptable as proof of compliance.

### III. Special Conditions

1. Board Resolution. A board resolution is not considered a Letter of Agreement or Memorandum of Understanding. Disclosure of the existence and terms of the resolution is optional; however, a general discussion of the contents is useful if such resolution was adopted in response to criticisms in an examination report.
2. Enforcement actions executed with insufficient time to achieve compliance. If insufficient time has passed to determine or to achieve compliance with an enforcement

REVIEW STANDARDS: ENFORCEMENT ACTIONS

action prior to application, the application may have to be placed on hold until such an assessment can be made. However, there may be cases where an Applicant will be approved prior to 100 percent compliance.

3. Plans of action. Describe specific plan(s) of action undertaken to comply with an enforcement action. Note in the discussion a forecast of when compliance might reasonably be expected.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: III-F  
CHAPTER: Review Standards                              PAGE: 1 of 4  
SUBJECT: Audit Opinion                                      DATE: November 17, 1993

1. PURPOSE. This section sets forth general requirements of and procedures for satisfying the Finance Board Review Standard for audit opinions for the financial condition statutory requirement. Generally, the institution must have received an unqualified opinion from its external auditor relating to the most recent audit of its financial statements.
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1424(a)(2)(B); 12 C.F.R. § 933.4(a)(4).
3. SPECIAL CONDITIONS.
  - o Alternatives to audited financial statements:
    - Holding company audit
    - Director's examination/report
    - Internal audit
    - Published financial statements

**REVIEW STANDARD: AUDIT OPINION**

I. Background

This Review Standard requires generally that the Applicant receive an unqualified opinion from its external auditors based on the most recent<sup>3</sup> audited financial statements. An unqualified audit opinion indicates that the financial statements are fairly stated and accounted for under Generally Accepted Accounting Principles ("GAAP"). The opinion may be generally stated in the following form:

In our opinion, the accompanying [financial statements] present fairly, in all material respects, the financial position of [Bank/Company ... and are] in conformity with generally accepted auditing principles. These financial statements are the responsibility of the [Bank's/ Company's] management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.+'

The OCC encourages nationally chartered banks to have their financial statements audited, but does not require it. Nationally chartered banks may also have an independent party's review', an internal audit of major general ledger accounts, or published financial statements to satisfy this Review Standard.

"Most recent" or "current" is defined to be the most recent available audit document(s) not older than two fiscal years.

<sup>4</sup> Source: Price Waterhouse.

<sup>5</sup> The OCC considers the internal audit department of a related organization, e.g., a bank holding company or the internal department of a correspondent bank, to be "external" insofar as the audited bank is concerned. (Source: Comptroller's Handbook for National Bank Examiners, Section 102.1, p. 9, August 1987).

## REVIEW STANDARD: AUDIT OPINION

For state-chartered banks, the primary regulatory requirements may vary. Each FHLBank is responsible for ensuring that the state requirements have been satisfied for each Applicant.

As secondary regulators, the FDIC and the Federal Reserve Board of Governors encourage state-chartered banks to have audited financial statements. Otherwise, an independent party's review, an internal audit of major general ledger accounts, or published financial statements/annual report to the regulator are typically required.

### II. Documentation

1. To satisfy this Review Standard, the application should state that the Applicant received an unqualified opinion from external auditors based on financial statements as of [date]. Additional justification for membership approval is required if the opinion is qualified or if no opinion could be expressed based on the audited financial statements. If the opinion is qualified, the qualification should be explained. If the auditor expresses no opinion, a discussion of the auditor's reasons should be provided.

### III. Special Conditions

1. Holding Company Audit. If the Applicant has no current audited financial statements, but its holding company has current consolidated audited financial statements, the holding company's audit may be used to satisfy this Review Standard.
2. Director's Examination/Report. If no current audited financial statements are available at the Applicant level or at the holding company level, a Director's Examination/Report or other outside party's review may be used to satisfy this Review Standard. Any procedures performed by outside auditors that do not constitute an opinioned audit in accordance with Generally Accepted Auditing Standards ("GAAS") will vary according to what is agreed upon between the Applicant and the audit firm in connection with the review engagement. When a Director's Examination/Report or other outside party's review is being used to satisfy this requirement, the FHLBank should state first that no current opinioned audit **is** available, that the outside party performed an outside review, the date of the review, and whether any material or significant findings were noted. Any material findings should be summarized and disclosed to the Finance Board.



REVIEW STANDARD: AUDIT OPINION

3. Internal Audit. If neither current audited financial statements nor current outside party's review are available, any current internal audit of major general ledger accounts (i.e., loans, deposits, investments, etc.) may be used to satisfy this Review Standard. Any significant findings should be summarized and disclosed to the Finance Board.
4. Published Financial Statements. If no current external or internal audit of any kind is available, the FHLBank should state that no audit is available and that the Applicant provided its most recent published financial statements with certification from an officer of the Applicant that the published financial statements were prepared according to GAAP.

NOTE: If no documents are made available from the Applicant to satisfy any of these alternatives, the FHLBank should state whether the Applicant is subject to any audit or published financial statement requirements by its regulator(s).



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: III-G  
CHAPTER: Review Standards                              PAGE: 1 of 2  
SUBJECT: Performance Trends                              DATE: November 17, 1993

1. PURPOSE. This section sets forth general requirements of and procedures for satisfying the Finance Board Review Standard for performance trends for the financial condition statutory requirement. Generally, the institution must not have experienced serious deterioration in financial condition since its last regulatory examination.
2. REFERENCE, Federal Home Loan Bank Act, 12 U.S.C. § 1424 (a)(2)(B); 12 C.F.R. § 933.4(a)(4).
3. SPECIAL CONDITIONS.
  - o Delegated approvals
  - o De novo institutions
  - o Recent and pending mergers

## REVIEW STANDARD: PERFORMANCE TRENDS

### I. Background

This Review Standard requires an analysis of performance trends to ensure that generally there has been no deterioration in financial condition since the most recent examination. This analysis provides support for a FHLBank's recommendation that the Applicant's "financial condition is such that advances may be safely made to such institution".

### II. Documentation

1. The performance trend analysis must cover the ~~most recent six quarters of operation and the past three year-ends~~ in order to accurately portray the trends in an Applicant's financial condition.
2. The basis for a determination that there has been no deterioration in the Applicant's financial condition since the most recent examination is described in Chapters IV-B, IV-C and IV-D. These chapters present an outline for the financial condition analysis for commercial bank, thrift, credit union and insurance company applicants.

At a minimum, the FHLBank must address each of the areas presented in the financial condition analysis outline in order to provide proper documentation under this Review Standard. However, analysis criteria will differ for each Applicant depending upon unique business conditions, operating philosophies, competitive/economic environment and other factors. The analysis must adequately address these unique concerns and issues, particularly as they relate to each Applicant institution.

Such financial condition analyses are required for all Applicants and are particularly important for Applicants with stale examinations.

3. The digest must confirm compliance with this Review Standard by summarizing the conclusions of the financial condition analysis and state whether there has been significant deterioration since the last examination.

### III. Special Conditions

- o Delegated approvals (See Chapter V-A)
- o De Novo institutions (See Chapter VIII-A)
- o Recent and pending mergers (See Chapter VIII-B)



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: III-H  
CHAPTER: Review Standards                              PAGE: 1 of 2  
SUBJECT: Character of Management                      DATE: November 17, 1993

1. PURPOSE. This section sets forth general requirements of and procedures for satisfying the Finance Board Review Standard for the character of management statutory requirement. Generally, neither the Applicant nor any of its directors or senior officers shall have been the subject of any relevant criminal, civil or administrative proceedings reflecting on creditworthiness, business judgment or moral turpitude since the last regulatory examination reviewed in connection with the application, and there are no known potential monetary liabilities, material pending lawsuits, or unsatisfied judgments against the institution.
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1424(a)(2)(C); 12 C.F.R. § 933.4(a)(5).
3. SPECIAL CONDITIONS.
  - o Bank counsel certification

REVIEW STANDARD: CHARACTER OF MANAGEMENT

I. Background

A FHLBank should obtain the names of directors and senior management and be prepared to request additional background as required. Any material lawsuits should be explained in detail along with an estimate of the financial impact on the Applicant relative to capital levels. The status of the lawsuit should be indicated with any available information on the anticipated outcome. Such information, especially since the most recent examination, must be disclosed. A database search, such as Lexis/Nexis, is recommended, but not required, particularly if the certification discussed below or other appropriate documentation indicates (potential) material lawsuits. Any material information arising from the search should be reported in the digest.

II. Documentation

A certification by the Applicant is required (See Chapter II-F, Exhibit A). The certification must be signed by an individual who has been delegated the authority to sign on behalf of the Applicant's board of directors. At a minimum, satisfaction of this Review Standard in most cases requires submission of an affirmation such as the following:

"Neither the Applicant nor any of its directors or senior management has been the subject of criminal, civil or administrative proceedings reflecting upon creditworthiness, business judgment, or moral turpitude since the most recent examination by the institution's primary regulator; and that there are no known monetary liabilities, material pending law suits, or unsatisfied judgments against the institution."

A review of the most recent examination and annual report may provide additional support in this regard.

III. Special Conditions

Bank counsel certification. Bank counsel is required to review and certify to the Applicant's compliance with this requirement (See Chapter IV-F and Exhibit A thereto).



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: IV-A  
CHAPTER: Application Documentation                      PAGE: 1 of 6  
SUBJECT: Sample Application Digest                      DATE: November 17, 1993,

1. PURPOSE. This section provides an example of the application Digest that may be used by the FHLBanks for all applications.
2. REFERENCE. None.
3. SPECIAL CONDITIONS.
  - o None.

APPLICATION DOCUMENTATION: SAMPLE APPLICATION DIGEST

Applicant Institution  
City, State  
Assets \$250.2 million - As of March 31, 1992

Prepared by the Federal Home Loan Bank of [FHLBank]

In accordance with Section 4 of the Federal Home Loan Bank Act (12 U.S.C. § 1424), as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), Applicant Institution ("Applicant") is applying to the Federal Home Loan Bank of [FHLBank] ("FHLBank") for membership.

We have analyzed the application of Applicant. It is our opinion that this institution meets the statutory eligibility criteria and Review Standards established by the Federal Housing Finance Board ("Finance Board") for membership in the Federal Home Loan Bank System ("FHLBank System").

We have reviewed the following information:

- 0 Applicant's board of directors, resolution authorizing the Applicant's application for FHLBank membership;
- 0 Calculation of the Applicant's holdings of home mortgage loans, home-purchase contracts, and similar obligations, and the amount of FHLBank stock to be purchased based thereon;
- 0 Latest Call Report filed with the Federal Deposit Insurance Corporation ("FDIC"), dated March 31, 1992, and for the five most recent prior quarters, and the three most recent year-ends;
- 0 Most recent Report of Examination prepared by the FDIC, dated August 31, 1991;
- 0 Most recent Community Reinvestment Act Performance Evaluation ("CRA Evaluation") prepared by the FDIC, dated September 15, 1991;
- 0 Audited financial statements, dated January 16, 1992, prepared by KPMG Peat Marwick, Certified Public Accountants;
- 0 Applicant's home-financing policy; and
- 0 [List any additional information reviewed that supports the application for membership.]
- 0 [List special delegation criteria, if applicable.]

Applicant Institution Name, City, State

Statutory Eligibility Criteria:

1. **Organization.** The Applicant is a federally chartered commercial bank incorporated in 1868 and governed under the laws of the United States. It is a wholly owned subsidiary of Parent Corporation, a [unitary or multiple] bank holding company located in [City, State] which had consolidate assets of \$1.6 billion as of March 31, 1992.
2. **Inspection and Regulation,** The Applicant is subject to inspection and regulation by the FDIC. The Applicant's deposit accounts are insured by the FDIC.
3. **Makes Long-term Home Mortgage Loans.** The Applicant originates long-term home mortgage loans with maturities up to 30 years. In addition, the Applicant holds \$8.5 million in mortgage-backed securities which represent 3.4 percent of total assets. [Insert compliance with delegation criteria, if applicable]
4. **Insured Depository Institution with at Least 10 Percent of Total Assets in Residential Mortgage Loans.** As of March 31, 1992, the Applicant had total assets of \$250.2 million, of which 48.5 percent were in residential mortgage loans (residential mortgage loans ratio, "RML").

The Applicant's actual thrift investment percentage ("ATIP") or qualified assets ratio ("QAR") was 67.9 percent. The institution is a qualified thrift lender ("QTL").

5. **Financial Condition Such That Advances May Be Safely Made.** We have reviewed the Applicant's financial condition and have determined the institution to be in satisfactory financial condition. The Applicant received a CAMEL rating of "2" in its most recent supervisory examination, dated August 31, 1991.

We believe that advances may be safely made to this institution. Given the institution's present financial condition, the Applicant would qualify for advances under the FHLBank's credit policies:

6. **Character of Management and Home-Financing Policy.** The character of the Applicant's management and its home financing policies are consistent with sound and economical home financing. The Applicant evidences strong community involvement by its activity in area housing projects. The Applicant's most recent CBA Evaluation, dated September 15, 1991, resulted in a CBA rating of "Satisfactory".



**APPLICATION DOCUMENTATION: SAMPLE APPLICATION DIGEST**

Applicant Institution Name, City, State

The Applicant has certified that neither the Applicant, nor any of its directors, officers or senior management has been the subject of criminal, civil or administrative proceedings reflecting upon creditworthiness, business judgment or moral turpitude since the most recent examination by the institution's primary regulator, and that there are no known potential monetary liabilities, material pending lawsuits or unsatisfied judgments against the institution.

Finance Board Review Standards:

1. **CAMEL Rating.** The Applicant received a CAMEL rating of "2" in its most recent FDIC examination, dated August 31, 1991.
2. **CRA Rating.** The Applicant received a CRA rating of "Satisfactory" in its most recent CRA Evaluation, dated September 15, 1991.
3. **Capital Compliance,** The Applicant meets the minimum statutory capital requirements set forth by FDICIA; its regulator, the FDIC, has not required the Applicant to hold capital levels above this requirement. As of March 31, 1992, the Applicant's actual capital and capital requirements were:
  - a. Risk-based capital: 10.86%; FDIC requirement 8.00%
  - b. Leverage ratio: 8.73%; FDIC requirement 4.00%
4. **Recent Earnings.** The Applicant reported earnings in six of the most recent six quarters of operation.
5. **Enforcement Actions.** No enforcement actions are known to be in effect at the time of this analysis, according to the documents reviewed and discussions with the Applicant.
6. **Auditor's Opinion,** The Applicant received an unqualified audit opinion from its outside auditor based on financial statements as of December 31, 1991 and 1990.
7. **Recent Trends,** [Provide a brief summary commenting on the Applicant's current financial condition. It should emphasize performance trends since the most recent examination. The summary should be based on the conclusions of the comprehensive financial analysis.]

For example, "capital exceeds regulatory requirements; earnings have increased in each of the last three years; and nonperforming assets were a modest 0.20 percent of loans as of March 31, 1992. There has been no significant

**APPLICATION DOCUMENTATION: SAMPLE APPLICATION DIGEST**

Applicant Institution Name, City, State

deterioration in the financial condition of the Applicant since the most recent supervisory examination."

- 8. **Management.** The Applicant certified that neither the Applicant nor any of its directors, officers, or senior management has been the subject of criminal, civil or administrative proceedings reflecting on credit worthiness, business judgment, or moral turpitude since the most recent examination by the Applicant's primary regulator, and that there are no known potential monetary liabilities, material pending lawsuits or unsatisfied judgments against the institution. In addition, a Lexis search of the Applicant, its directors and officers revealed no such relevant proceedings since the last examination.

Other Requirements: (If applicable)

- 1. **Additional Justification.** [If the Applicant is required to provide additional justifications under any of the Finance Board Review Standards, specifically explain the circumstances requiring additional justification and the reasons justifying a recommendation for approval.]

Recommendation:

We hereby certify that the above information is accurate, and that it is based on a diligent and comprehensive review of all available information. We are aware of nothing of a material nature that would otherwise influence or bear upon the approval of this application. We recommend Finance-Board approval of the application of Applicant Institution for membership in the Federal Home Loan Bank of [FHLBank].

Prepared by: \_\_\_\_\_

Signature \_\_\_\_\_  
Title [Analyst]

Reviewed by:

Signature \_\_\_\_\_  
Title [Supervisor]

Approval Recommended by:

Signature \_\_\_\_\_  
President (or his/her designee)  
Date \_\_\_\_\_

APPLICATION DOCUMENTATION: SAMPLE APPLICATION DIGEST

FEDERAL HOME LOAN BANK OF [FHLBANK]

MEMORANDUM

TO: Membership Application File  
FROM: Bank Counsel  
DATE: [Date of Bank Counsel's Certification]  
RE: [Applicant]

I am the Bank Counsel for the Federal Home Loan Bank of [FHLBank] ("FHLBank") and have reviewed the application for membership from the above-referenced institution ("Applicant").

Based on my review, it is my opinion that the Applicant is authorized under the laws of the United States and the laws of [State of Applicant's charter], to purchase stock in, do business with, maintain deposits in, and become a member of the FHLBank. To the best of my knowledge, there are no outstanding legal issues which should adversely affect the FHLBank's or the Finance Board's decision to approve membership. I render no legal opinion or business judgment as to the institution's financial condition.

---

Bank Counsel



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: IV-B  
CHAPTER: Application Documentation                      PAGE: 1 of 9  
SUBJECT: Financial Condition Analysis                      DATE: November 17, 1993  
            and Outline - Thrifts and  
            Commercial Banks

1. PURPOSE. This section sets forth procedures to prepare the financial condition analysis required for all membership applications. The section also provides an outline of the financial condition analysis for commercial bank and thrift Applicants that must be used.
2. REFERENCE. None.
3. SPECIAL CONDITIONS.
  - o All applications require preparation of a financial condition analysis pursuant to these Guidelines.
  - o Delegated approval. Any application that cannot be approved under delegated authority must be submitted to the Finance Board for action. Such applications must include the financial condition analysis, regardless of the rating the Applicant has received.
  - o Automatic approval. SAIF-insured state-chartered savings associations and federally chartered savings associations automatically become members. Therefore, it is not necessary to prepare an application for these institutions.

**APPLICATION DOCUMENTATION:**

**FINANCIAL CONDITION ANALYSIS  
- THRIFTS AND COMMERCIAL BANKS**

**I. Background**

The Federal Home Loan Bank Act generally contains six statutory requirements for membership. Among the statutory requirements is the requirement that an insured depository institution's "financial condition is such that advances may be safely made to such institution".

The following six Finance Board Review Standards were developed expressly to determine compliance in most cases with the financial condition requirement:

- o The Applicant's CAMEL rating or equivalent rating, if applicable;
- o The Applicant's capital strength;
- o The Applicant's earnings;
- o The existence of any enforcement actions;
- o The Applicant's independent or directors' audit report; and
- o The evaluation of recent performance trends.

This section discusses the Financial Condition Analysis ("Analysis"), which presents an evaluation of the financial condition of an Applicant, including an assessment of the Applicant's profile related to the above items.

In order to streamline the application requirements, a "bullet-point" format for the Analysis has been developed to assist in summarizing the FHLBank's evaluation of the institution's financial condition. The length of a bullet-point is at the discretion of the FHLBank, provided that required information and major issues have been addressed. Additional bullet-points may be provided that support the approval decision and others may be deleted that are not relevant for the particular Applicant under consideration. An outline for the Analysis is presented in this chapter.

APPLICATION DOCUMENTATION:  
FINANCIAL CONDITION ANALYSIS  
- **THRIFTS AND COMMERCIAL BANKS**

**II. FHLBank Responsibilities**

The FHLBank must complete an Analysis for each Applicant, regardless of financial condition or type of institution, Any application that may not be approved under delegated authority must be submitted to the Finance Board for action with the financial condition analysis.

**III. Documentation**

The financial data submitted to the Applicant's regulator(s) (e.g., Call Reports) will be used as the source document for a majority of the financial information required for the Analysis. This information may be obtained in either "hard copy" printed form or generated from a computer database, including CD-ROM. The database may be either from a regulatory agency **system (e.g., BITS)** or a commercially available system, (e.g., Ferguson & Co.).

**A. Commercial banks**

Unless the FHLBank provides justification, the Analysis requires a review of the following information:

1. Call Report data for at least the last six quarters and the last three year-ends.
2. The most recent audited financial statements, if available. (See Chapter III-F for detailed requirements)
3. The **most** recent regulatory examination available. (See Chapter III-A for detailed requirements)
4. Any existing enforcement actions, response by the Applicant and reports **as** required by the action. (See Chapter III-E for detailed requirements)

While the following documents are optional, they often provide valuable information that would enhance the FHLBank's analysis and research:

5. Optional: The most recent annual report and quarterly reports, if available.

**APPLICATION DOCUMENTATION:**

**FINANCIAL CONDITION ANALYSIS  
- THRIFTS AND COMMERCIAL BANKS**

6. Optional: If the Applicant is part of a holding company with consolidated assets over \$500 million, the most recent two year-end Federal Reserve Y-9 holding company reports should be reviewed for the top-tier holding company.

If applicable, both the Y9-C and Y9-LP reports shall be reviewed.

7. Optional: If filed by the Applicant or the holding company, the last 10-K report filed with its Federal banking regulator or the SEC and any 10-Q filed with its Federal banking regulator or the SEC since the most recent 10-K.

B. Thrift Institutions

Unless the FHLBank provides justification, the Analysis requires a review of the following information:

1. Thrift Financial Report data for at least the last six quarters and the last three year-ends.
2. The most recent audited financial statements, if available. (See Chapter III-F for detailed requirements)
3. The most recent regulatory examination available. (See Chapter III-A for detailed requirements)
4. Any existing enforcement actions, response by the Applicant and reports as required by the action. (See Chapter III-E for detailed requirements)

IV. Special Conditions

- o All applications. All applications require preparation of a financial condition analysis pursuant to these guidelines.
- o Delegated approval. Applications that cannot be approved under delegated authority must be submitted to the Finance Board with the financial condition analysis.

APPLICATION DOCUMENTATION:

FINANCIAL CONDITION ANALYSIS  
- THRIFTS AND COMMERCIAL BANES

- o Automatic approval. SAIF-insured state-chartered savings associations and federally chartered savings associations automatically become members. In addition, insured depository institutions that convert from one type of charter to another automatically become members if the resulting institution continues to be an insured depository institution and the assets of the institution immediately before and immediately after the conversion are identical. Therefore, it is not necessary to prepare an application for these institutions. See 12 C.F.R. § 933.2(d), (e).



APPLICATION DOCUMENTATION:

FINANCIAL CONDITION ANALYSIS OUTLINE  
- THRIFTS AND COMMERCIAL BANKS

- I. Recommendation and basis for the recommendation
- II. List of data and information used to compile the analysis
- III. Recent examination findings
  - A. Summary of examination criticisms and strengths
    - o Composite rating, agency that prepared the examination and date of last examination.
    - o Summary of examination criticisms for each of the CAMEL components -- Capital, Assets, Management, Earnings and Liquidity.
    - o The Applicant's prepared response to any material criticisms in its most recent examination.
  - B. Actions undertaken by the Applicant to ensure improvement, if applicable.
- IV. Financial analysis
  - A. Summary of overall strengths and weaknesses
  - B. Profitability
    - o Summary assessment of profitability including whether current level is sustainable and anticipated changes in the future.
    - o Trends in adjusted ROA, ROE and net income (adjusted meaning net of securities gains and losses and extraordinary items).
    - o Earnings for the last six quarters.
    - o Prepare a bullet point on each of the following individual factors, if applicable.
      - net interest income
      - interest rate sensitivity
      - noninterest income
      - noninterest operating expenses
      - loss provision
      - nonoperating income, including securities gains and losses on securities and extraordinary items

**APPLICATION DOCUMENTATION:**

**FINANCIAL CONDITION ANALYSIS OUTLINE  
- THRIFTS AND COMMERCIAL BANKS**

**C. Asset quality**

- o Statement about general asset quality condition.
- o Prepare a bullet point on each of the following individual factors, if applicable:
  - nonperforming asset trends
  - loss allowance adequacy
  - asset composition
  - unusual loan growth or shrinkage
  - domestic risk real estate-related assets

**D. Capital**

- o Statement about capital adequacy taking into account the following individual factors:
  - additions to equity compared to asset growth
  - loss allowance adequacy
  - market to book value comparison of the securities portfolio
  - dividend payouts
- o Statement of regulatory capital requirements vs. actual capital ratios.
- o Trends in comparison to regulatory requirements.
- o If applicable, special issues related to capital, including the raising of additional capital within the last two years, anticipated raising of capital or capital infusion from the parent company.

**E. Liquidity**

- o General comment on liquidity or funding risk taking into account funding sources, marketability of assets and general financial condition.
- o Assessment of "core" deposits. Core deposits are defined as certificates of deposit less than \$100,000 and domestic deposits other than certificates of deposit.

**APPLICATION DOCUMENTATION:**

**FINANCIAL CONDITION ANALYSIS OUTLINE  
- THRIFTS AND COMMERCIAL BANKS**

- o Prepare a bullet point on each of the following individual factors, if applicable.
  - Ability of unpledged marketable assets to cover purchased or non-core funding
  - Core deposit funding as a percentage of assets and loans including a comment on the degree of reliance on core funding
  - Annual percentage change in core deposit trends

F. Holding Company (if applicable)

The purpose of this section is to assist the FHLBank in determining if the holding company is a source of strength for the Applicant or a potential drain on the Applicant's resources. It does not suggest that a complete analysis of the holding company is required. The following information is only relevant if the Applicant is part of a bank holding company structure:

- o List all depository institution subsidiaries of the holding company and note especially whether they are in weak or strong financial condition.
- o Indicate those subsidiaries that are already FHLBank System members.
- o Prepare a bullet point on each of the following individual factors related to the consolidated entity, if applicable:
  - general financial condition of the consolidated entity
  - consolidated earnings vs. Applicant's earnings
  - consolidated asset quality vs. Applicant's asset quality
  - consolidated capital ratios vs. Applicant's capital ratio
- o Prepare a bullet point on each of the following individual factors related to the parent company only:
  - ability to service debt
  - ability to make dividend payments and financial performance trends

**APPLICATION DOCUMENTATION:**

**FINANCIAL CONDITION ANALYSIS OUTLINE  
- THRIFTS AND COMMERCIAL BANKS**

- liabilities to equity capital trends
  - liquidity
  - identify dividend payments required to be upstreamed by the Applicant to the parent company
- o Foreign holding companies. If a holding company is outside the United States, please so state and provide the consolidated assets, city, state or country of both tiers of the holding company structure, if applicable.
- G. Available Collateral**
- o Indicate whether the FHLBank is able to extend advances to the Applicant under the FHLBank's credit policies.
  - o Indicate any special conditions anticipated on borrowing ability.

**V. Recommendation**

The Analysis concludes with a recommendation from the FHLBank. At a minimum, the recommendation is signed by the analyst and the analyst's supervisor, or his or her designee.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: IV-C.  
CHAPTER: Application Documentation                      PAGE: 1 of 7  
SUBJECT: Financial Condition Analysis                      DATE: November 17, 1993  
                    and Outline - Credit Unions

1. PURPOSE. This section sets forth procedures to prepare the financial condition analysis required for all membership applications. The section also provides an outline of the financial condition analysis for credit union Applicants that may be used by the FHLBanks.
2. REFERENCE. None.
3. SPECIAL CONDITIONS.
  - o Requires review and approval by the Finance Board.

**APPLICATION DOCUMENTATION:  
FINANCIAL CONDITION ANALYSIS - CREDIT UNIONS**

**I. Background**

The Federal Home Loan Bank Act generally contains six statutory requirements for membership. Among the statutory requirements is the requirement that an insured depository institution's "financial condition is such that advances may be safely made to such institution".

The following six Finance Board Review Standards were developed expressly to determine compliance in most cases with the financial condition requirement:

- o The Applicant's CAMEL rating or equivalent rating, if applicable;
- o The Applicant's capital strength;
- o The Applicant's earnings;
- o The existence of any enforcement actions;
- o The auditor's opinion; and
- o The evaluation of recent performance trends.

This section discusses the Financial Condition Analysis ("Analysis") which presents an evaluation of the financial condition of an Applicant, including an assessment of the Applicant's profile related to the above items.

In order to streamline the application requirements, a "bullet-point" format for the Analysis has been developed to assist in summarizing the FHLBank's evaluation of the institution's financial condition. The length of a "bullet point" is at the discretion of the FHLBank, provided that required information and major issues have been addressed. Additional bullet points may be provided that support the approval decision and others may be deleted that are not relevant for the particular Applicant under consideration. An outline for the Analysis is presented in this chapter.

**II. FHLBank Responsibilities**

The FHLBank must complete an Analysis for each Applicant regardless of its financial condition. Applications from credit unions may not be approved by the FHLBank under delegated authority, and must be submitted to the Finance Board with the other application documents and financial condition analysis for Finance Board action.

APPLICATION DOCUMENTATION:  
FINANCIAL CONDITION ANALYSIS - CREDIT UNIONS

III. Documentation

The financial data submitted to the Applicant's regulator(s), (e.g., NCUA Reports such as the Financial Performance Report), will be used as the source document for a majority of the financial information required for the Analysis. This information may be obtained in either "hard copy" printed form or generated from a computer database, including CD-ROM. The database may be either from a regulatory agency system (e.g., BITS) or a commercially available system, (e.g., Ferguson & Co.).

Unless the FHLBank provides justification, the Analysis requires a review of the following information:

1. For credit unions filing semiannually, the most recent four semiannual Call Reports, including the most recent three year-end reports submitted to NCUA.

For credit unions filing quarterly, the most recent six quarterly Call Reports, including the most recent three year-end reports submitted to the NCUA. For credit unions beginning to file quarterly, a phase-in process will be used until six quarters of Call Reports are available.'

- o If the number of quarters being used is greater than or equal to the number of semiannual periods, obtain the six most recent filing periods of Call Reports;
  - o If the number of quarters being used is less than the number of semiannual periods, obtain the four most recent filing periods of Call Reports.
2. The most recent Financial Performance Report compiled by NCUA.

---

The NCUA Board amended section 741.13 of its regulations to require that all credit unions with assets of \$50 million or greater file Financial and Statistical reports ("Call Reports") on a quarterly basis beginning March 31, 1993. See 58 Fed. Reg. 5571 (January 22, 1993). Those credit unions with total assets of \$100 million or greater began filing quarterly Call Reports on March 31, 1992.

**APPLICATION DOCUMENTATION:  
FINANCIAL CONDITION ANALYSIS - CREDIT UNIONS**

3. The most recent audited financial statements, if available.
4. The most recent regulatory examination.
5. Any existing enforcement actions, response by the Applicant and reports as required by the action.

The credit union financial condition analysis is prepared in a similar format to the commercial bank format described in Chapter IV-B. The similarities in required information as well as certain differences in the analysis are described in this section.

**IV. Special Conditions**

- o Finance Board review and approval required. Credit union applications cannot be approved under delegated authority and must be submitted to the Finance Board for action. Such applications must include the FHLBank's financial condition analysis.



**APPLICATION DOCUMENTATION:**  
**FINANCIAL CONDITION ANALYSIS OUTLINE - CREDIT UNIONS**

- I. Recommendation and basis for the recommendation
- II. List of data and information used to compile the analysis
- III. Recent examination findings
  - A. Summary of examination criticisms and strengths
    - o Composite rating, agency that prepared the examination and date of last examination.
    - o Summary of examination criticisms for each of the CAMEL components -- Capital, Assets, Management, Earnings and Liquidity.
    - o The Applicant's prepared response to any material criticisms in its most recent examination.
  - B. Actions undertaken by the Applicant to ensure improvement, if applicable.
- IV. Financial analysis
  - A. Summary of overall strengths and weaknesses
  - B. Profitability
    - o Summary assessment of profitability including whether current level is sustainable and anticipated changes in the future.
    - o Trends in ROA, return on total capital and net income.
    - o Earnings for the last six quarters.
    - o Prepare a bullet point on each of the following individual factors, if applicable:
      - operating expenses/average assets
      - net interest income before and after statutory reserve transfers/average assets
      - noninterest income
      - loss provision
      - nonoperating income, including securities gains and losses on securities and extraordinary items
  - C. Asset quality
    - o Statement about general asset quality condition.
    - o Statement on interest rate sensitivity.

**APPLICATION DOCUMENTATION:  
FINANCIAL CONDITION ANALYSIS OUTLINE - CREDIT UNIONS**

- o Prepare a bullet point on each of the following individual factors:
  - nonperforming asset trends
  - loan loss reserve adequacy
  - asset composition
  - unusual loan growth or shrinkage
  - net charge-offs/average loans
  - delinquent loans/total loans
  - nonearning assets/total assets

D. Capital

- o Statement about capital adequacy taking into account the following individual factors:
  - additions to equity compared to asset growth
  - loss allowance adequacy
  - market to book value comparison of the investment portfolio
  - capital/total assets
  - net capital/total assets
- o Statement of regulatory capital requirements, including the regular reserve to loans and risk asset' ratio, vs. actual capital ratios.

---

Under the NCUA regulations, 58 Fed. Reg. 4004 (July 27, 1993) (to be codified in 12 C.F.R. § 700.1) risk assets include all assets except the following: 1) cash on hand; 2) deposits and/or shares in federally or state insured banks, savings and loan associations and credit unions that have a remaining maturity, of three years or less; 3) assets that have a remaining maturity of three years or less and are insured by, fully guaranteed as to principal and interest by, or due from the U.S. government, its agencies, FNMA, FHLMC, or GNMA. Collateralized mortgage obligations that are comprised of government guaranteed mortgage loans shall be included; 4) loans to other credit unions that have a remaining maturity of three years or less; 5) student loans insured under the provision of Title IV, Part B of the Higher Education Act of 1965 (20 U.S.C. 1071, et seq.) or similar state insurance programs that have a remaining maturity of three years or less; 6) loans that have a remaining maturity of three years or less and are fully insured or guaranteed by the Federal or a state government or any agency of either; and 7) shares or deposits in a central or corporate credit union that have a remaining maturity of three years or less.

**APPLICATION DOCUMENTATION:  
FINANCIAL CONDITION ANALYSIS OUTLINE - CREDIT UNIONS**

- o Financial performance trends in comparison to regulatory requirements.
- o If applicable, special issues related to capital, including the raising of additional capital within the last two years, anticipated raising of capital or capital infusion from the parent company.

E. Liquidity

- o Assessment of liquidity or funding risk taking into account funding sources, marketability of assets and general financial condition.
- o Assessment of trends in shares and deposits.
- o Estimated short-term cash availability.
- o Long-term assets/total assets.
- o Net long-term assets/total assets.

F. Available Collateral

- o Any special conditions anticipated on borrowing ability.

V. **Recommendation**

The Analysis concludes with a recommendation from the FHLBank. At a minimum, the recommendation is signed by the analyst and the analyst's supervisor, or his or her designee.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: IV-D  
CHAPTER: Application Documentation                      PAGE: 1 of 7  
SUBJECT: Financial Condition Analysis                      DATE: November 17, 1993  
                    and Outline - Insurance  
                    Companies

1. PURPOSE. This section sets forth procedures to prepare the financial condition analysis required for all membership applications. The section also provides an outline of the financial condition analysis for insurance company applicants that may be used by the FHLBanks.
2. REFERENCE. None.
3. SPECIAL CONDITIONS.
  - o Requires review and approval by the Finance Board.
  - o Insurance company applicants are not subject to the 10 percent residential mortgage loans requirement.

APPLICATION DOCUMENTATION:

FINANCIAL CONDITION ANALYSIS  
- INSURANCE COMPANIES

I. Background

The Federal Home Loan Bank Act generally contains six statutory requirements for membership of insured depositor institutions. Pursuant to regulation, the Finance Board has determined that all of these requirements apply to all insurance company applicants except the 10 percent residential mortgage loans requirement. Among the statutory requirements is the requirement that an institution's "financial condition is such that advances may be safely made to such institution". This section of the Guidelines sets forth requirements and procedures to determine generally whether an insurance company applicant qualifies under the financial condition criterion.

The following six Finance Board Review Standards were developed expressly to determine compliance in most cases with the financial condition requirement:

- o The Applicant's CAMEL rating or equivalent rating, if applicable;
- o The Applicant's capital strength;
- o The Applicant's earnings;
- o The existence of any enforcement actions;
- o The Applicant's independent or directors' audit report; and
- o The evaluation of recent performance trends.

This section discusses the Financial Condition Analysis ("Analysis") which presents an evaluation of the financial condition of an Applicant, including an assessment of the Applicant's profile related to the above items.

In order to streamline the application requirements, a "bullet-point" format for the Analysis has been developed to assist in summarizing the FHLBank's evaluation of the company's financial condition. The length of a bullet-point is at the discretion of the FHLBank, provided that required information and major issues have been addressed. Additional bullet-points may be provided that support the approval decision and others may be deleted that are not relevant for the particular Applicant under consideration. An outline for the Analysis is presented in this chapter.

APPLICATION DOCUMENTATION:  
FINANCIAL CONDITION ANALYSIS  
- INSURANCE COMPANIES

II. FHLBank Responsibilities

The FHLBank must complete an Analysis for each Applicant regardless of the financial condition or type of company. Applications from insurance companies may not be approved by the FHLBank under delegated authority and must be submitted to the Finance Board with the other application documents and the financial condition analysis for Finance Board action.

III. Documentation

The financial data submitted to the Applicant's regulator will be used as the source document for a majority of the financial information required for the Analysis. This information may be obtained in either "hard copy" printed form or generated from a computer database, including CD-ROM. The database may be either from a regulatory agency system or a commercially available system, (e.g., NAIC, Michael Conn Associates).

Unless the FHLBank provides justification, the Analysis requires a review of the following information:

1. Financial statement data for at least the most recent five year-ends.
2. The most recent audited financial statements, if available'. (See Chapter III-F for detailed requirements)
3. The most recent regulatory examination available. (See Chapter III-A for detailed requirements)
4. Any existing enforcement actions, response by the Applicant and reports as required by the action. (See Chapter III-E for detailed requirements)
5. Optional: The most recent annual report and quarterly reports, if available.
6. Optional: If filed by the Applicant or the holding company, the last 10-K report filed with the SEC and any 10-Q filed with the SEC since the most recent 10-K.

IV. Special Conditions

- o All applications must be submitted to the Finance Board.
- o Insurance companies are not subject to the 10 percent residential mortgage loans test,

**APPLICATION DOCUMENTATION:**

**FINANCIAL CONDITION ANALYSIS OUTLINE  
- INSURANCE COMPANIES**

- I. Recommendation and basis for the recommendation
- II. List of data and information used to compile the Analysis
- III. Recent examination findings
  - A. Summary of examination criticisms and strengths
    - o State insurance commissioner responsible for the company's regulation and examination, and date of the last examination.
    - o Summary of examination criticisms.
    - o The Applicant's prepared response to any material criticisms in its most recent examination.
  - B. Actions undertaken by the Applicant to ensure improvement, if applicable.
  - C. Information as to whether the insurance commissioner that conducted the examination is accredited pursuant to the requirements established by the National Association of Insurance Commissioners ("NAIC").
- IV. Rating agency reviews
  - A. Most current rating by each agency that rates the insurance company, date of the rating, rating scale used by the agency and narrative statement indicating the definition of the rating of the insurance company Applicant, type of rating (e.g., claims paying ability), and summary comments.
- V. Financial analysis
  - A. Summary of overall strengths and weaknesses
  - B. Operations
    - o Summary of major lines of business and any specialty products offered.
    - o Relative importance of each line of business as a percent of total premiums.
    - o Growth patterns and changes in trends by line of business; changes in product mix.
    - o Comparison to peer group; both industry and stock/mutual companies.

**APPLICATION DOCUMENTATION:**

**FINANCIAL CONDITION ANALYSIS OUTLINE  
- INSURANCE COMPANIES**

**C. Profitability**

- 0 Summary assessment of overall profitability including whether current level is sustainable and anticipated changes in the future; issues that could impact continued profitability.
- 0 Trends in adjusted ROA, ROE and net income (adjusted meaning net of securities gains and losses and extraordinary items).
- 0 Earnings for the last five years.
- 0 Assessment of individual lines of business compared to the industry and peer group for each of the following factors:
  - net increase in premiums and reserves
  - profitability (before and after tax)
  - profit margin
  - benefits
  - commissions and expenses
  - average size of new policy
  - average premium per thousand on new policies
  - credited interest rate
  - retention rates and lapsation ratio
- 0 Importance of reinsurance activities - trends and earnings.

**D. Asset Quality**

- 0 Statement about general asset quality condition.
- 0 Assessment of each of the following individual factors:
  - asset composition
  - unusual asset growth or shrinkage
  - distribution of invested assets
  - net yield on invested assets, compared to peer grow; expected return given risk characteristics
  - management's overall investment strategy; changes and consistency with product mix



**APPLICATION DOCUMENTATION:**

**FINANCIAL CONDITION ANALYSIS OUTLINE  
- INSURANCE COMPANIES**

D. Asset Quality (Continued)

- composition of investment portfolio
- quality of the corporate equity and bond portfolios
- market value vs. book value of investment portfolio
  
- composition of the real estate portfolio
- quality of the real estate portfolio
- trends in nonperforming assets
- trends in delinquency rate
  
- relative importance of affiliated investments - type and size

E. Capital

- o Statement about capital adequacy taking into account the company's assets investment strategy, product mix and the following individual factors compared to peer:
  - additions to equity compared to asset growth
  - leverage ratio
  - risk adjusted capital ratio
  - valuation reserve adequacy for both the loan and securities portfolios
  - dividend payouts
  
- o If applicable, special issues related to capital including the raising of additional capital within the last five years, anticipated raising of capital or capital infusion from the parent company, and access to capital markets.

F. Liquidity

- o Assessment of liquidity or funding risk taking into account funding sources, marketability of assets and general financial condition.
- o Liquidity ratio compared to peer group.
- o Access to funding sources.

G. Holding Company (if applicable)

The purpose of this section is to assist the FHLBank in determining if the holding company is a source of strength for the Applicant or a potential drain on the Applicant's resources. It does not suggest that a complete analysis of the holding company is required.

**APPLICATION DOCUMENTATION:**

**FINANCIAL CONDITION ANALYSIS OUTLINE  
- INSURANCE COMPANIES**

The following information is only relevant if the Applicant is part of a holding company structure:

- o List all depository institution subsidiaries of the holding company, and note especially whether they are in weak or strong financial condition.
  - o Indicate those subsidiaries that are already FHLBank System members.
  - o Assess the following factors related to the consolidated entity:
    - general financial condition of the consolidated entity
    - consolidated vs. Applicant's earnings
    - consolidated vs. Applicant's asset quality
    - consolidated vs. Applicant's capital ratios
  - o Prepare a bullet point on each of the following individual factors related to the parent company only:
    - ability to service debt
    - ability to make dividend payments and financial performance trends
    - liabilities to equity capital trends
    - liquidity
    - dividend payments required to be upstreamed by the Applicant to the parent company
- H. Available Collateral
- o Any special conditions anticipated on borrowing ability.
  - o Any special conditions anticipated on availability of collateral.

**V. Recommendation**

The Analysis concludes with a recommendation from the FHLBank. At a minimum, the recommendation is signed by the FHLBank analyst and the analyst's supervisor, or his or her designee.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: IV-E  
CHAPTER: Application Documentation                  PAGE: 1 of 3  
SUBJECT: Bank Management Certification          DATE: November 17, 1993

1. PURPOSE. This section sets forth procedures for FHLBank management to certify a completed application for membership.
2. REFERENCE. None.
3. SPECIAL CONDITIONS.
  - o Certification by designee of FHLBank president.

## APPLICATION DOCUMENTATION: BANK MANAGEMENT CERTIFICATION

### I. Background

After completing the review and preparation of each membership application according to the format provided in Chapters IV-A, IV-B, IV-C and IV-D, the FHLBank analyst forwards the documentation to appropriate FHLBank management to certify as to the accuracy of the information and the completeness of the review, and to recommend approval of the Applicant for FHLBank membership. The following section outlines procedures for completing this certification process.

### II. Documentation

1. Format of Certification. Page 5 of the Sample Application Digest (Chapter IV-A) provides the preferred format for the management certification. Specifically, the certification requires the FHLBank analyst, the management (or the FHLBank analyst's supervisor) and the FHLBank president (or designee) to certify the following:

- o Accuracy of information contained therein
- o Application was reviewed in a diligent and comprehensive manner
- o All material facts have been disclosed
- o Recommendation for approval of the applicant for membership in the FHLBank

The certification format was developed to ensure that FHLBank representatives are fully aware of the importance of the application review process in approving Applicants for FHLBank membership. Specifically, the Finance Board provides the FHLBanks with Guidelines that represent the minimum level of financial analysis required. The FHLBank is responsible for ensuring that all material facts are disclosed and that the financial analysis is conducted in accordance with the Finance Board's Guidelines. Accordingly, the Finance Board will not permit deviations from this certification format.

2. Signature Requirements. The FHLBank analyst must sign the certification and include his/her title. All documentation is then forwarded to his/her senior level manager or supervisor for thorough review and signature.

APPLICATION DOCUMENTATION: BANE MANAGEMENT CERTIFICATION

Bank counsel's certification should be prepared after the application documentation has been reviewed and signed by senior management (See Chapter IV-F, Exhibit A).

Finally, the application documentation and counsel's certification are forwarded to the FHLBank president for review, and the president signs and dates the management certification.

III. Special Conditions

1. Certification of FHLBank president's designee. The FHLBank president is required to certify to the accuracy of the analysis and completeness of information presented in the application documents. However, the application may be signed by another individual specifically designated to sign corporate documents for the FHLBank president in his or her absence. This special condition is designed to allow for flexibility as an exception case and is not intended to be the normal operating procedure.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: IV-F  
CHAPTER: Application Documentation                      PAGE: 1 of 5  
SUBJECT: Bank Counsel Certification                      DATE: November 17, 1993

1. PURPOSE. This section sets forth procedures for the FHLBank's counsel to certify a completed application for membership, including an explanation of counsel's role in the certification process and the minimum scope of review expected.
2. REFERENCE. None.
3. SPECIAL CONDITIONS.
  - o FHLBanks without in-house counsel.

**APPLICATION DOCUMENTATION: BANK COUNSEL CERTIFICATION**

**I, Background**

The Finance Board requires a review of the application! documentation and a certification by the FHLBank's counsel. The following section outlines procedures for completing this certification process, including an explanation of the nature of the certification.

**II. Documentation**

1. Format of Certification. Previous procedure allowed for a certification by counsel within the context of the application digest. Exhibit A provides the format for counsel's certification which should be attached to the digest as a separate document.

2. Content of Certification. FHLBank counsel is required to certify to the following:

- o The Applicant is authorized under the laws of the United States and the laws of the appropriate state to become a member of, purchase stock in, do business with, and maintain deposits in the FHLBank.,

This item requires FHLBank counsel to review applicable law to ensure that membership in the FHLBank is not precluded and that the Applicant is authorized to hold stock and maintain deposits in the FHLBank System.

- o The Applicant is authorized to become a member of the FHLBank, i.e., the six statutory eligibility criteria must have been met.

This second item requires, at a minimum, a review of the contents of the Digest. However, the Finance Board believes that a review of only the contents of the digest is generally insufficient and provides too narrow a view. At the least, counsel should have available for review the entire file of the FHLBank that forms the basis for its recommendation to the Finance Board. Ultimately, the judgment of the appropriate extent of FHLBank counsel review is necessarily dependent upon what notice either the file or the FHLBank's review gives to counsel that the approval decision raises issues requiring counsel's attention.

**APPLICATION DOCUMENTATION: BANK COUNSEL CERTIFICATION**

3. Review of management's certification. FHLBank's counsel is required to review the certification by the Applicant's management and the results of the search by the FHLBank of available public records or related documentation, if a search was completed, which should indicate that neither the Applicant nor any of its directors or senior management has been the subject of relevant criminal, civil or administrative proceedings reflecting on creditworthiness, business judgment or moral turpitude since the most recent examination by the institution's primary regulator, and that there are no known potential monetary liabilities, material pending lawsuits or unsatisfied judgements against the institution.

---

This third item requires a review by FHLBank counsel of the certification by the Applicant's management for information of relevant criminal, civil or administrative proceedings, etc., as described above. If such information is identified, an appropriate analysis of its effect on the Applicant and subsequent recommendation by the FHLBank should be undertaken by counsel.

If a search of public records was also done, counsel should review the results with the same standards used in the review of the certification.

If any criminal, civil or administrative proceedings or legal issues are identified which may impact on a decision to approve or deny an Applicant for membership, counsel must determine the relevancy of and the impact on the FHLBank and the Applicant of the possible results of such proceedings or legal issues.

The FHLBank counsel's certification is not intended to require a replication of each step taken by the FHLBank analysts. However, the scope of this process must be sufficiently extensive to meet professional standards. The certification format provided in Exhibit A represents the minimum scope of review the Finance Board will accept. Accordingly, the Finance Board will not permit deviation from this certification format except when additional factors or items are incorporated in this certification process.



APPLICATION DOCUMENTATION: BANK COUNSEL CERTIFICATION

III. Special Conditions

1. FHLBanks without in-house counsel. FHLBanks that do not retain in-house counsel must submit alternative procedures for counsel's review and certification of membership applications to the Finance Board for approval. The Finance Board's District Banks Directorate and Office of Legal & External Affairs - Legal Division will jointly review and take action on such FHLBank's alternative procedures. FHLBanks that do retain in-house counsel must follow the procedures set forth in this chapter.

EXHIBIT A  
MEMORANDUM

TO: Membership Application File  
FROM: Bank Counsel  
DATE: [Date of Bank Counsel's Certification]  
RE: [Applicant]

I am the Bank Counsel for the Federal Home Loan Bank of [FHLBank] ("FHLBank") and have reviewed the application for membership from the above-referenced institution ("Applicant").

Based on my review, it is my opinion that the Applicant is authorized under the laws of the United States and the laws of [State of Applicant's charter] to buy stock in, do business with, maintain deposits in, and become a member of the FHLBank. To the best of my knowledge, there are no outstanding legal issues which should adversely affect the FHLBank's or the Finance Board's decision to approve membership. I render no legal opinion or business judgment as to the institution's financial condition.

---

Bank Counsel



## APPROVAL PROCESS: DELEGATION CRITERIA AND PROCEDURES

### I. Background

Section 933.3(a) of the Finance Board's membership regulation provides for delegation of the authority to approve membership applications to the board of directors of each FHLBank, provided the applications meet all of the statutory and regulatory criteria and conditions set forth by the Finance Board. This chapter outlines criteria that must be met for a membership application to be approved by a FHLBank pursuant to delegated authority.

### II. Documentation

#### A. Delegation Criteria

To be approved for membership by the FHLBank, the Applicant must meet the following delegation criteria:

1. The institution must meet **all** of the statutory requirements for membership, as outlined in Chapter II, including:
  - o Duly organized under the laws of any State or of the United States (See Chapter II-A);
  - o Subject to inspection and regulation under the banking laws, or under similar laws, of the State or of the United States (See Chapter II-B);
  - o Makes long-term home mortgage loans (See Chapter II-C);
  - o Has at least 10 percent of its total assets in residential mortgage loans (See Chapter II-D);
  - o Financial condition is such that advances may be safely made (See Chapter II-E); and
  - o Character of management and home-financing policy are consistent with sound and economical home financing (See Chapter II-F).
2. The institution must meet **all** of the Finance Board Review Standards for membership, as outlined in Chapter III, including:
  - o CAMEL or MACRO rating of "1" or "2" (See Chapter III-A, and delegation criteria 3. for greater detail);

**APPROVAL PROCESS: DELEGATION CRITERIA AND PROCEDURES**

- o The institution received a Community Reinvestment Act Performance Evaluation rating of "Satisfactory" or better in its most recent evaluation (See Chapter III-B). If the Applicant has not been reviewed for CRA purposes since July 1, 1990 when the new rating system was established, but received a CRA rating of "2" or better under the old system, the delegation criteria for this item has been satisfied.

If, after reasonable efforts have been undertaken to obtain the CRA evaluation, only the CRA rating is available, the rating may be used in processing the application.

- o The institution's capital ratios as of the most recent reporting period meet or exceed all capital requirements imposed by its appropriate Federal and State banking agency, and a capital plan imposed by the institution's Federal or State regulator is not in effect (See Chapter III-C);
- o The institution reported earnings from operations (net of securities gains/losses and/or extraordinary items) in four out of six quarters immediately preceding its application for membership, with earnings reported from operations in the most recent quarter for which such financial information is available (See Chapter III-D);
- o Neither the institution, nor any of its directors or senior officers, at the time of application, is subject to any enforcement actions by the institution's appropriate Federal or State banking agency (See Chapter III-E);
- o The institution received an unqualified auditor's opinion conducted according to Generally Accepted Auditing Standards as of the most recent fiscal year-end, or has one of the following acceptable alternatives to audited financial statements (See Chapter III-F for further detail):
  - Holding company audit
  - Director's examination/report
  - Internal audit
  - Published financial statements;

**APPROVAL PROCESS: DELEGATION CRITERIA AND PROCEDURES**

- o Performance trends reflect no significant deterioration in financial condition since the date of the last regulatory examination (See Chapter III-G):
    - CAMEL "1" rated institutions by definition automatically meet this Review Standard
    - CAMEL "2" rated institutions satisfy this Review Standard if they meet all five financial ratios set forth under section 3 of the delegation criteria; and
  - o Character of management reflects that neither the Applicant nor any of its directors or senior management has been the subject of criminal, civil or administrative proceedings reflecting upon creditworthiness, business judgement, or moral turpitude since the most recent examination by the institution's primary regulator; and that there are no known potential monetary liabilities, no material pending lawsuits, or unsatisfied judgements against the institution, as indicated in the certification by the Applicant (See Chapter III-H).
3. The institution must meet the following delegation criteria:
- o The institution received a composite CAMEL or MACRO rating of "1" in its most recent examination completed by either its appropriate Federal or State banking agency within the two-year period immediately preceding its application for membership;

- OR -

The institution received a composite CAMEL or MACRO rating of "2" in its most recent examination completed by its appropriate Federal or State banking agency within the two-year period immediately preceding its application for membership, AND met the following conditions in four of the six quarters immediately preceding the institution's application for membership, including the most recent quarter:

- (i) the annualized return on average assets (net of securities gains/losses and/or extraordinary items) was greater than or equal to 60 basis points;
- (ii) the ratio of non-performing loans plus other real estate owned ("OREO") to total loans plus other real estate owned was less than 4 percent;

APPROVAL PROCESS: DELEGATION CRITERIA AND PROCEDURES

- (iii) the ratio of nonperforming assets to equity plus loan loss reserves was less than 30 percent;
- (iv) the ratio of loan loss reserves to non-performing loans was greater than or equal to 60 percent; and
- (v) the ratio of domestic risk real estate loans to total domestic loans was less than 35 percent;

NOTE: Exhibit A provides the calculation methodology, using the appropriate Call Report line items.

Exhibit B provides the calculation methodology, using Ferguson and Company BankSource data.

B. Delegation Procedures

After determining an application is eligible for delegated approval, the following procedures should be followed:

1. An application digest and financial condition analysis shall be prepared with documentation as outlined in these Guidelines. (This requirement shall apply regardless of whether the application is forwarded to the Finance Board for approval or approved under delegated authority.)

All documentation and analyses for delegated applications shall be kept on file and subject to review by the Finance Board's Examination and Regulatory Oversight Division to ensure completeness and compliance with these Guidelines. When necessary, a letter to the file noting that by the request of the regulator the examination report was returned or destroyed is sufficient documentation that an examination report was reviewed.

2. Pursuant to section 933.3(b) of the Finance Board's membership regulation, the FHLBank must notify the Finance Board of any approval action within 10 calendar days of approval. The following information must be provided to the Finance Board on a weekly basis for all approvals during the reporting period (See Exhibit C):

- o Date of approval
- o Institution name and location
- o Charter type
- o Insurer
- o Holding Company
- o Total assets (date)
- o Residential mortgage loans ratio (date)
- o Qualified thrift investments ratio (date)

## APPROVAL PROCESS: DELEGATION CRITERIA AND PROCEDURES

- o CAMEL rating (date) and regulator
  - o CRA rating (date) and regulator
  - o Risk-based and leverage capital (requirements vs. ratios)
  - o Adjusted earnings (x/6 quarters)
  - o Enforcement actions
  - o Audit opinion (date)
  - o Performance trends
  - o Character of management certification
- 
- o Adjusted ROA
  - o Non-performing loans to total loans ratio
  - o Non-performing assets to equity ratio
  - o Loan loss reserve to non-performing loans ratio
  - o Domestic risk real estate loans to total domestic loans

The definition and methodology for the last five items above are found in Exhibits A and B of this chapter. The last five items do not need to be calculated for CAMEL or MACRO "1" rated institutions,

In addition, the FHLBank must send the completed "Makes Long-term Home Mortgage Loans: Assessment Worksheet" (See Chapter II-C, Exhibit A) and the completed docket number request form along with the Delegated Approval Worksheet (See Exhibit C) for all delegated approvals.

3. The FHLBank must also submit to the Finance Board a monthly report, within five business days after the close of the month, that includes minimum stock purchases by new members during the month. These reports shall be prepared in connection with and pursuant to current guidelines developed by the Finance Board's Financial Reporting and Operations Division.

### III. Special Conditions

1. Applications not eligible for delegation. Certain applications must be submitted to the Finance Board for review and approval, regardless of compliance with the Guidelines outlined in this chapter. This includes applications from the following:
  - o Insurance companies;
  - o De novo institutions;
  - o Credit unions;



**APPROVAL PROCESS: DELEGATION CRITERIA AND PROCEDURES**

- o Institutions resulting from a merger or acquisition within the six quarters immediately preceding their application for membership or institutions in the process of acquiring another institution within the two quarters following the date of the digest (See Chapter VIII-B for detail on the materiality of the merger); and
  - o Institutions that fail to comply with all of the conditions for delegated approval, as outlined above.
2. Examination report issues. The FHLBank must obtain and review the institution's most recent examination report (See Chapter III-A). This examination must have been conducted within the two-year period immediately preceding the application for membership. If any of the following apply, the application may not be approved under delegated authority:
- o State examination. The most recent examination was conducted more than two years prior to the date of receipt by the FHLBank of the institution's application for membership.
  - o State examination. The most recent examination was conducted by the State regulator, the examination rating is known, but the State will not permit the FHLBank access to the examination report for review; and a federal examination report has been obtained for review, but was conducted more than two years prior to the date of the application.
  - o State examination. The **most** recent examination was conducted by the State regulator, the examination rating is known and resulted in a rating of CAMEL 3 or worse, but the State will not permit the FHLBank access to the examination report for review; and the most recent federal examination report has been obtained for review and was conducted within the two year time frame, and the federal examination resulted in a rating of CAMEL 1 or 2.

EXHIBIT A

Calculation of Performance Ratios -  
Using Call Report Line Items

The following summary provides the calculation methodology for the five qualifying performance ratios, assuming an Applicant received a composite CAMEL rating of "2" in its most recent examination and the FHLBank needs to assess whether membership approval can be delegated. Ratios must be calculated for each of the most recent six quarters and must meet or exceed designated thresholds in at least four of these six quarters, including the most recent quarter. The summary utilizes the Call Report as the primary source of financial data:

1. Annualized Return on Average Assets (adjusted):

Threshold: Greater than or equal to .60 percent

Calculation:

RIAD 4301: Income (loss) bef. taxes, extra. items & other  
adjustments -  
RIAD 4091: Gain (loss) on sec. not held in trading

Divided by:

RIAD 4301: Income (loss) bef. taxes, extra. items & other  
adjustments

Multiplied by:

RIAD 4300: Income (loss) bef. extra. items & other  
adjustments

Divided by:

RIAD 4340: Net income (loss)

Multiplied by:

Unadjusted ROAA\*

\*Unadjusted ROAA equals annualized RIAD 4340 on a quarterly basis divided by RCON 3368.

EXHIBIT A (Continued)

(2) Nonperforming loans & OREO to total loans & OREO:

Threshold: Less than 4.00 percent

Calculation:

RCON 5525: Total 90+ day past due loans -  
RCON 3506: 90+ day debt securities +  
RCON 5526: Total nonaccrual loans -  
RCON 3507: Nonaccrual debt securities +  
RCON 1616: Restructured loans +  
RCON 2150: Other real estate owned

Divided by:

RCON 2122: Total loans and leases +  
RCON 2150: Other real estate owned

(3) Nonperforming assets to equity + loan loss reserves:

Threshold: Less than 30.00 percent

Calculation

RCON 5525: Total 90+ day past due loans and debt  
securities +  
RCON 5526: Total nonaccrual loans and debt securities +  
RCON 1616: Restructured loans +  
RCON 2150: Other real estate owned

Divided by:

RCON 3210: Total equity capital +  
RCON 3123: Allowance for loan losses +  
RCON 3128: Allocated transfer risk reserve

EXHIBIT A (Continued)

(4) Loan loss reserves to non-performing loans:

Threshold: Greater than or equal to 60.00 percent

Calculation:

RCON 3123: Allowance for loan losses +  
RCON 3128: Allocated transfer risk reserve

**Divided by:**

RCON 5525: Total 90+ day past due loans -  
RCON 3506: 90+ day debt securities +  
RCON 5526: Total nonaccrual loans -  
RCON 3507: Nonaccrual debt securities +  
RCON 1616: Restructured loans

(5) Domestic risk real estate loans to total domestic loans:

Threshold: Less than 35.00 percent

Calculation:

RCON 1415: Construction and land development +  
RCON 1420: Secured by farmland +  
RCON 1460: Secured by multi-family (5 or more) +  
RCON 1480: Nonfarm nonresidential properties

**Divided by:**

RCON 2122: Total loans and leases

EXHIBIT B

Calculation of Performance Ratios -  
Using Ferguson & Company BankSource Data

The following summary provides the calculation methodology for the five qualifying performance ratios, assuming an Applicant received a composite CAMEL rating of "2" in its most recent examination and the FHLBank needs to assess whether membership approval can be delegated. Ratios must be calculated for **each of** the most recent six quarters and must meet or exceed designated thresholds in at least four of these six quarters including the most recent quarter. The summary utilizes the Ferguson database as the primary source of financial data:

(1) Annualized Return on Average Assets (adjusted):

Threshold: Greater than or equal to .60 percent

Calculation:

Operating income (loss) bef. taxes & extra. items /  
Income (loss) bef. taxes & extra. items

**Multiplied by:**

Net income (loss) bef. extra. items /  
Net income (loss)

**Mu**ltiplied by:

Unadjusted ROA

(2) Nonperforming loans & OREO to total loans & OREO:

Threshold: Less than 4.00 percent

Calculation:

Total 90+ day past due loans +  
Total nonaccrual loans +  
Restructured loans +  
OREO

Divided by:

Total loans +  
OREO

EXHIBIT B (Continued)

(3) Nonperforming assets to equity + loan loss reserves:

Threshold: Less than 30.00 percent

Calculation

Total 90+ day past due loans +  
90+ day debt securities +  
Nonaccrual **loans** +  
Nonaccrual debt securities +  
Restructured loans +  
**OREO**

**Divided by:**

Total equity +  
Loan loss reserve +  
**Allocated** transfer risk

(4) **Loan loss** reserves to **non-performing loans**:

Threshold: Greater than or equal to 60.00 percent

Calculation:

**Loan loss reserve** +  
**Allocated** transfer risk

**Divided by:**

Total 90+ day past due loans +  
Total nonaccrual loans +  
Restructured loans

(5) Domestic risk real estate loans to total domestic loans:

Threshold: Less than 35.00 percent

Calculation:

Total construction and development loans +  
Secured by farmland loans +  
5 or more family unit loans +  
Nonfarm, nonresidential loans

**Divided by:**

Total domestic loans and leases

Exhibit C  
**DELEGATED APPROVAL**  
 FHLBank District \_\_\_\_\_

Date of Approval:

Institution Name & Location:

Charter Type:

Insurer:

Holding Company:

Total Assets & Date:

QTL & Date:

RML ratio & Date:

REVIEW STANDARDS	
CAMEL Rating, Date & Regulator:	
CRA Rating, Date & Regulator:	
Risk-based Capital & Date:	Requirement:
Leverage Capital & Date:	Requirement:
Adjusted Earnings (i.e., 6/6, 5/6):	
Enforcement Actions:	
Audit Opinion & Date:	
Performance Trends:	
Character of Management Certification:	

PERFORMANCE RATIOS						
For CAMEL '2' only:	Current Qtr.	Qtr. #2	Qtr. #3	Qtr. #4	Qtr. #5	Qtr. #6
Annualized adjusted ROA						
Nonperforming loans + OREO/ total loans + OREO						
Nonperforming assets/ Equity & loan loss reserves						
Loan loss reserves/ Nonperforming loans						
Domestic risk real estate loans/ Total domestic loans						

MAKES LONG-TERM HOME MORTGAGE LOANS
Does the Applicant originate or purchase home mortgage loans with a maturity of 5 years or greater?  Yes _____ No _____



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications

CHAPTER: V-B

CHAPTER: Approval Process

PAGE: 1 of 8

SUBJECT: Complete Application  
Requirements

DATE: November 17, 1993

1. PURPOSE. This section sets forth requirements that constitute a complete application upon receipt at the Finance Board.
2. REFERENCE. 12 C.F.R. § 933.2(a).
3. SPECIAL CONDITIONS.
  - o None.



**APPROVAL PROCESS: COMPLETE APPLICATION REQUIREMENTS**

**I. Documentation Requirements**

1. All applications.

- (1) Digest including a response for all statutory eligibility and Finance Board Review Standards,
- (2) Financial condition analysis, and
- (3) Any additional justification or information required under Review Standards.

2. De novo institution.

- (1) Digest\*,
- (2) Financial condition analysis\*,
- (3) Analysis of institution's performance against original and revised business plans including comparative tables that review budget to actual performance, and
- (4) Any additional justification or information required under Review Standards.

\*See Chapter VIII-A for special requirements.

3. Credit Union.

- (1) Digest,
- (2) Financial condition analysis, and
- (3) Any additional justification or information required under Review Standards.

4. Insurance Company.

- (1) Digest,
- (2) Financial condition analysis, and
- (3) Any additional justification or information required under Review Standards.

**APPROVAL PROCESS: COMPLETE APPLICATION REQUIREMENTS**

5. Recent and Pending Mergers.

- (1) Digest\*,
- (2) Financial condition analysis\*, and
- (3) Any additional justification or information required under Review Standards.

\*See Chapter VIII-B for special requirements.

6. Financial Data Consistency

- (1) All financial data must be based on the most currently available quarter-end regulatory financial report for which there is a complete set of financial data. All financial data and financial ratios in the FHLBank submission must be as of the same date.

II. Information Requirements for Statutory Criteria

1. Organization

- (1) Date of charter and type of charter.
- (2) Whether it is part of a holding company, the name, asset size and location of the holding company; whether any other affiliates of the holding company are FHLBank members and any depository institution affiliates.

2. Inspection and Regulation

- (1) Primary and secondary regulator(s).
- (2) Agency that insures the deposits; if it is an insurance company, indication that there are no insured deposits.

3. Makes Long-Term Home Mortgage Loans

- (1) Statement that the Applicant qualifies under this requirement.
- (2) Description of the qualifying product.
- (3) Whether mortgage-backed securities are held, dollar amount of the mortgage-backed securities and percentage of mortgage-backed securities to total assets.

**APPROVAL PROCESS: COMPLETE APPLICATION REQUIREMENTS**

4. The 10 Percent Test

- (1) Statement that the Applicant qualifies under this requirement.
- (2) Amount of residential mortgage loans and total assets.
- (3) Residential mortgage loans ("RML") as a percentage of total assets; any assets used in the calculation that require Finance Board consideration on a case-by-case basis in order to qualify; if such assets are included, the calculation should be made both excluding and including such assets.

5. Financial Condition Such That Advances Can Be Safely Made

- (1) Statement that the Applicant qualifies under this requirement.
- (2) Basis for the conclusion under (1).
- (3) Indication that the Applicant qualifies to take down advances under the FHLBank's credit policy. Note and explain any reasons the Applicant would not qualify for advances under the FHLBank's credit policy.
- (4) Estimate of eligible collateral.

6. Character of Management and Home-Financing Policy

- (1) Statement that the Applicant qualifies under this requirement.
- (2) Certification from the Applicant's management on character of management. FHLBank search of publicly available information also recommended.
- (3) Any other issues that may reflect adversely on character of management.
- (4) Description of the home financing policy; if the Applicant does not have one, discussion of why it does not have one.
- (5) CRA rating and date of the rating.

APPROVAL PROCESS.- COMPLETE APPLICATION REQUIREMENTS

III. Information Requirements for Finance Board Review Standards

1. CAMEL Rating

- (1) The rating, date of the rating and the regulatory agency for the Applicant's most recent examination reviewed in connection with the application.
- (2) If the rating is more than two years old or the Applicant has never been rated, such information must be disclosed as well as a justification for the approval recommendation.
- (3) If the most recent examination was performed by a State regulatory agency that refuses the FHLBank access to the examination report, document the efforts to obtain the examination and provide information on the more dated Federal examination. If possible, provide the date and the rating for the State examination.

2. CRA Rating

- (1) The rating, date of the rating and the rating agency must be provided.
- (2) If the CRA rating is below satisfactory, documented evidence must accompany the application to indicate the steps taken to correct the CRA deficiency including correspondence with the regulator and/or a statement of corrective action.

If the evaluation was performed after July 1, 1990, provide a copy of the public portion of the CRA evaluation for review by the Housing Finance Directorate,

- (3) If the Applicant is not subject to a CRA rating, a description by the Applicant must accompany the application to indicate that the institution serves the credit needs of its community.

3. Capital

- (1) Capital ratios, All minimum capital ratios required by the regulator along with the name of the regulator must be listed. The Applicant's actual capital ratios must also be listed.

**APPROVAL PROCESS: COMPLETE APPLICATION REQUIREMENTS**

- (2) If the regulatory requirements are not met, then a justification for approval must be presented in the Digest.

4. Recent Earnings

- (1) The number of quarters with positive net income over the most recent six quarters.
- (2) Credit union applicants must provide Call Reports showing earnings for filing periods as follows: For credit unions filing semiannually, obtain the four most recent semiannual Call Reports; for credit unions filing quarterly, a phase-in process will be used until a full six quarters of Call Reports are available. If the number of quarters being used is greater than or equal to the number of semiannual periods, obtain the six most recent filing periods of Call Reports; if the number of quarters being used is less than the number of semiannual periods, obtain the four most recent filing periods of Call Reports. The proposed rule by the NCUA for federally insured credit unions is as follows:

Credit unions with assets greater than \$100 million file quarterly as of March 31, 1992.

Credit unions with assets greater than \$50 million file quarterly as of March 31, 1993.

Credit unions with assets greater than \$20 million file quarterly as of March 31, 1994.

Indicate the number of periods resulting in positive earnings due to securities gains or extraordinary items. To satisfy the Review Standard, credit unions must show a profit for at least three of the most recent four semiannual filing periods or at least four of the most recent six filing periods, as applicable.

- (2) If a de novo institution has been operating for less than six quarters, report the number of profitable quarters out of the total number of quarters in business. Note: a de novo institution must be able to report at least three quarters of operating data to be considered for membership.
- (3) If this Review Standard is not met, a justification for approval must be presented in the Digest.

**APPROVAL PROCESS: COMPLETE APPLICATION REQUIREMENTS**

5. Enforcement Action

- (1) Date, type of enforcement action and regulatory agency initiating the action.
- (2) Description of the requirements of the action and whether the Applicant is in compliance with such requirements.
- (3) If the requirements of this Review Standard are not met, additional justification for approval must be presented in the digest.

6. Audit Reports

- (1) The results of the most recent audit. Acceptable documentation includes: the opinion of the independent audit of the Applicant; or if audited financial statements of the Applicant are lacking, audited financial statements at the holding company level may be used. In the absence of any audited financial statements, a director's examination/report or outside party's review may be used. If any of the aforementioned are lacking, an internal audit may be used. If no internal or external audit of any kind is available, published financial statements with certification from an officer of the Applicant that the published financial statements were prepared in accordance with GAAP must be provided.
- (2) If the Applicant has never been audited or is not required to have an audit of any kind, such must be indicated with supporting documentation for the FHLBank's determination.
- (3) If the above cannot be satisfied, additional justification for approval must be presented in the Digest.

7. Recent Financial Performance Trends

- (1) A statement whether there has been any deterioration since the most recent regulatory examination.
- (2) Major strengths and weaknesses described more fully in the financial condition analysis.
- (3) If the requirements of this Review Standard are not met, then additional justification for approval must be presented in the digest.

**APPROVAL PROCESS: COMPLETE APPLICATION REQUIREMENTS**

8. Character of Management

- (1) Character of management. The application must include a certification by the Applicant regarding the existence of relevant criminal, civil or administrative proceedings reflecting on creditworthiness, business judgment or moral turpitude since the last regulatory examination, and any known potential monetary liabilities, pending material lawsuits, or unsatisfied judgments against the institution.

The Finance Board also recommends, but does not require, a diligent review of public records (e.g., Lexis/Nexis) for directors and officers, particularly those of insurance company applicants.

- (2) If the requirements of this Review Standard are not met, then additional justification for approval must be presented in the digest.

9. Additional Justification

- (1) Additional justification. Additional justification for approval must be provided where the above referenced requirements cannot be satisfied.
- (2) Incomplete Documentation. Description of efforts undertaken by the FHLBank to obtain and review required documentation and justification for approval absent such documents must be submitted for applications where required documentation is unavailable (i.e., CRA examinations, State examinations).

10. Recommendation

- (1) The digest must include a recommendation. The recommendation must be signed by the president (or his designee).
- (2) The digest must also include a certification from FHLBank counsel.

**NOTE: If in doubt about application requirements, contact the Finance Board before the application is submitted. Incomplete documentation delays all application processing.**





## APPROVAL PROCESS: PROCESSING TIME FRAMES

### I. Background

The following time frames are internal guidelines established to provide the FHLBanks with an estimate of approval timing for membership applications. The time frames vary depending upon the profile and financial characteristics of Applicant institutions.

In general, an application qualifies for 10-day processing if it meets all of the statutory criteria and the Finance Board Review Standards and the full documentation required is received in the original application. All other applications fall under a 30-day approval deadline unless policy issues arise that require approval by the Board of the Finance Board. In such cases, processing time frames are longer.

#### 1. Applications Receiving 10-day Processing

- o Meets all statutory requirements:
  - Duly organized under State or United States laws
  - Subject to inspection and regulation under banking or similar laws
  - Makes home mortgage loans with a maturity of five years or more
  - 10 percent of total assets in residential mortgage loans
  - Financial condition is such that advances may be safely made to such Applicant
  - Character of management and home-financing policy are consistent with sound and economical home financing
- o Meets all of the following Finance Board Review Standards requirements:
  - CAMEL 1 or 2 within the last two years from submission of application to the Finance Board
  - CRA rating of "Satisfactory"<sup>N</sup> or better
  - Capital ratios meet regulatory minimum requirements
  - Earnings in 4 of the past 6 quarters of operation

## APPROVAL PROCESS: PROCESSING TIME FRAMES

- No enforcement actions currently in place
  - Unqualified auditor's opinion or directors' report with no material findings
  - Recent performance trends indicate no significant deterioration in financial condition since the last examination
  - Neither the Applicant nor any of its directors or senior management has been the subject of criminal, civil or administrative proceedings reflecting upon creditworthiness, business judgment, or moral turpitude since the most recent examination by the institution's primary regulator, and there are no potential monetary liabilities, material pending lawsuits, or unsatisfied judgments against the institution.
- o Meets all of the above Finance Board Review Standards requirements, but fails one or more of the five performance ratios required for delegated approval by the FHLBank described below in three of the six quarters immediately preceding the application for membership or the most recent quarter:
- annualized return on average assets (net of securities gains/losses and/or extraordinary items) of greater than or equal to 60 basis points;
  - ratio of non-performing loans plus other real estate owned to total loans plus other real estate owned of less than 4 percent;
  - ratio of non-performing assets to equity plus loan- loss reserves of less than 30 percent;
  - ratio of loan loss reserves to non-performing loans of greater than or equal to 60 percent; or
  - ratio of domestic risk real estate loans to total domestic loans of less than 35 percent.
2. Applications Receiving 30-day Processing
- o CAMEL 1 or 2 rated institution that fails any one of the requirements in paragraph 1 above or the Delegation Criteria (other than the five ratios described above).

**APPROVAL PROCESS: PROCESSING TIME FRAMES**

- o CAMEL 3 rated institution
  - o De novo institution
  - o Insurance company
  - o Credit union
  - o Institution that has merged within the past six quarters or plans to merge in the next two quarters (See Chapter VIII-B).
  - o Institutions where recent financial performance trends are negative, including institutions which were unprofitable in the most recent quarter, had consecutive quarterly increases in nonperforming assets, or had material declines in profitability, capital or loss allowances.
3. Other Applications
- o CAMEL 4 or 5 rated institution
  - o Institution with policy determinations that require approval by the Board of the Finance Board. For example:
    - Institution makes 3-year balloon payment mortgages amortized over 30 years and holds no mortgage-backed securities.
    - Institution is part of a large bank holding company structure with subsidiaries in weak financial condition. Holding company does not provide a source of strength to its subsidiaries.
    - Institution does not meet capital requirements and is under a regulatory capital plan.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Application                      CHAPTER: VI-A  
CHAPTER: Capital Stock                                      PAGE: 1 of 8  
SUBJECT: Capital Stock Calculation                      DATE: November 17, 1993

1. PURPOSE. This section sets forth procedures to calculate an Applicant's FHLBank stock requirement.
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. §§ 1426(b), and 1430(e)(3); 12 C.F.R. § 933.7(a).
3. SPECIAL CONDITIONS
  - o Calculation for thrift applicants after first quarter of operation.
  - o Insurance company calculation.

## CAPITAL STOCK: CAPITAL STOCK CALCULATION

### I. Background

Section 6(b) of the Federal Home Loan Bank Act requires all members to purchase FHLBank stock equal to one percent of the member's aggregate unpaid loan principal, but not less than \$500. Additionally, section 10(e)(3) requires each member to purchase FHLBank stock as if at least 30% of its total assets were home mortgage loans. Therefore, a member is required to maintain FHLBank stock equal to the greater of one percent of aggregate unpaid loan principal or one percent of 30% of total assets.

To ensure that the FHLBanks are uniformly interpreting and applying the definitions for the FHLBank stock requirement calculation, this chapter provides instructions and definitions for calculating the minimum capital stock requirement.

### II. Documentation

1. A certification indicating an agreement to purchase FHLBank stock must be completed at the time the membership application is filed with the FHLBank (See sample certification attached as Exhibit A). The certification must be signed by a majority of the Applicant's board members or by a representative delegated the authority to sign for the board and whose signature is attested to by the corporate secretary.

The purpose of such a certification is to ensure that the Applicant understands the stock purchase requirement and knows the approximate amount of stock required to be purchased after approval.

2. Exhibits B through D provide line item definitions and calculation methodology for the minimum FHLBank stock requirement for commercial banks, thrifts and credit unions.

NOTE: The line item definitions contained on the attached forms also can be used during the annual FHLBank stock adjustment process or upon approval for membership (See Chapter VI-B).

### III, Special Conditions

1. Thrift Calculation. The line item definitions provided for the thrift calculation incorporate line items from the year-end Annual Supplement. Consequently, the FHLBank should develop a comparable quarterly line item definition for thrift applicants filing for membership after the first quarter of operation.

CAPITAL STOCK: CAPITAL STOCK CALCULATION

2. Insurance Company Calculation. In calculating the FHLBank stock requirement for insurance company applicants, the FHLBank will need to obtain a complete listing of all permanent single and multifamily mortgages and all residential mortgage-backed securities.

Exhibit A

FEDERAL HOME LOAN BANK OF \_\_\_\_\_

**Applicant Name:** \_\_\_\_\_

**APPLICATION FOR MEMBERSHIP AND PURCHASE OF  
STOCK IN FEDERAL HOME LOAN BANK**

\_\_\_\_\_  
(Date of Application)

The undersigned Applicant hereby applies for membership in the Federal Home Loan Bank of \_\_\_\_\_ (FHLBank) and, if approved for membership, will purchase \_\_\_\_\_ shares of stock in the par value of \$100 each in the FHLBank, and agrees to make payment in the amount of \$ \_\_\_\_\_ as payment of said stock purchase within 60 calendar days of approval for FHLBank membership.

Applicant is of the opinion that it is eligible to become a member of the FHLBank and that it is authorized to purchase and hold capital stock in the FHLBank and to maintain deposits there. Applicant understands that this application must be considered, acted upon, and approved by the Federal Housing Finance Board (Finance Board) before becoming a member of the FHLBank.

In submitting this application, Applicant understands and agrees that:

- (1) It will be advised whether or not its application for membership is approved.
- (2) If admitted to membership, it will conform to all requirements of the Federal Home Loan Bank Act, as now, or hereafter amended, and to the rules and regulations thereunder.
- (3) In applying for, and if Applicant is admitted to membership, the Finance Board and the FHLBank are authorized to receive any information, examination reports and other supervisory materials provided by the appropriate State or Federal regulatory authority or officer exercising supervisory authority over Applicant regarding Applicant and its affairs.
- (4) It will not represent itself to be a member of the FHLBank until it has received notice of approval of membership and has purchased its minimum stock requirement.

Exhibit A (Continued)

FEDERAL HOME LOAN BANK OF \_\_\_\_\_

**APPLICANT NAME:** \_\_\_\_\_

Applicant by its duly authorized representative and the undersigned members of Applicant's board of directors severally represent that each such person has read this application and that in the opinion of each such person, he or she has made such examination and investigation as is necessary (or is relying in good faith upon information received from qualified persons) to enable him or her to express an informed opinion that this application complies, to the best of his or her knowledge and belief, with the applicable requirements of the Federal Home Loan Bank Act and the rules and regulations thereunder.

\_\_\_\_\_  
(Exact Name of Applicant as Specified in Charter)

\_\_\_\_\_  
(Street Address of Applicant)

\_\_\_\_\_  
(City, State, and Zip Code)

By: \_\_\_\_\_  
(Duly Authorized Representative)

**ATTEST:**

\_\_\_\_\_  
(Secretary)

**SIGNATURES OF AT LEAST A  
MAJORITY OF THE DIRECTORS/TRUSTEES\***

Name (print)	Corporate Title	Signature
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

\*Optional



Exhibit B

COMMERCIAL BANKS

Computation of FHLBank Stock Requirement

As of \_\_\_\_\_  
(most recent quarter)

Sum of:

1-4 Family Mortgages - Revolving \_\_\_\_\_  
(RC-C, Line 1c(1))

1-4 Family Mortgages - Other \_\_\_\_\_  
(RC-C, Line 1c(2)a+b)

Multifamily Loans \_\_\_\_\_  
(RC-C, Line 1d)

FNMA & FHLMC PCs & Passthroughs \_\_\_\_\_  
(RC-B, Line a(1))

GNMA PCs & Passthroughs \_\_\_\_\_  
(RC-B, Line a(2))

Other Private Residential PCs & \_\_\_\_\_  
Passthroughs  
(RC-B, Line 4a) 3)

TOTAL MORTGAGE ASSETS (1) \_\_\_\_\_

1% OF (1) (2) \_\_\_\_\_

TOTAL ASSETS (3) \_\_\_\_\_

.3% of (3) (4) \_\_\_\_\_

REQUIRED STOCK PURCHASE:

Greater of (2) or (4) (5) \_\_\_\_\_  
Round (5) to next highest \$100

Please enter total (in thousands) as reported on the most recent regulatory financial report.

Exhibit C

THRIFTS

Computation of FHLBank Stock Requirement

As of \_\_\_\_\_  
(most recent quarter)

Mortgage Loans and Contracts (AS 150)		
Minus:		
Residential Construction Loans (SC 230 plus SC 235)		_____
Minus:		
Balance of loans in process/undisbursed commitments on residential property (AS 140)		_____
NET MORTGAGE LOANS	(1)	_____
1% of (1)	(2)	_____
TOTAL ASSETS (SC 060)	(3)	_____
.3% of (3)	(4)	_____
REQUIRED STOCK PURCHASE:		
Greater of (2) or (4) Round (5) to next highest \$100.	(5)	_____

Please enter total (in thousands) as reported on the most recent Thrift Financial Report.

Exhibit D

CREDIT UNIONS

Computation of FHLBank Stock Requirement

As of \_\_\_\_\_  
(most recent quarter)

First Mortgage Real Estate (NCUA 5300, Line 703)		_____
Minus:		
Portion of Line 703 representing construction loans		_____
TOTAL MORTGAGE REAL ESTATE ASSETS	(1)	_____
Plus:		
Other Real Estate (NCUA 5300, Line 386)	(2)	_____
Federal Agency Mortgage-Backed Securities (Include only the portion of NCUA 5300, Line 742c that is MBS)	(3)	_____
NET MORTGAGE LOANS (1) + (2) + (3)	(4)	_____
1% OF (4)	(5)	_____
TOTAL ASSETS (NCUA 5300, Line 010)	(6)	_____
.3% of (6)	(7)	_____
REQUIRED STOCK PURCHASE:		
Greater of (5) or (7) Round (8) to next highest \$100.	(8)	_____

Please enter total (in thousands) as reported on the most recent NCUA Financial Report.



## **CAPITAL STOCK: CAPITAL STOCK PURCHASE PROCEDURES**

### **I. Background**

Section 933.7(b) of the membership regulation provides that an Applicant need not pay for stock until its application for membership in the FHLBank has been approved. This chapter provides pertinent information about the capital stock purchase procedures.

### **II. Documentation**

1. Upon approval for membership, the Applicant has 60 calendar days in which to pay for its minimum stock purchase, as calculated in Chapter VI-A.
2. Alternatively, the Applicant may elect to pay for the stock in installments. If so, the first one-quarter installment must be paid within 60 calendar days of approval, with a further sum of not less than one-fourth of the total amount payable at the end of each succeeding period of four months until the total is paid.
3. An Applicant's membership in the FHLBank System begins upon payment of its minimum stock requirement or the first installment of its minimum stock requirement. See 12 C.F.R. § 933.7(c). The Applicant is then entitled to the privileges of membership, including the ability to obtain advances from its FHLBank. However, borrowing capacity would be limited by the advances-to-capital stock requirements of section 10(c) and (e) of the Federal Home Loan Bank Act (See Chapter VI-C, herein). See 12 U.S.C. § 1430(c), (e).

### **III. Special Conditions**

1. Failure to purchase stock within designated time period.: If an approved Applicant fails to pay for its minimum stock purchase or its first quarterly installment within 60 calendar days of its approval for membership, the approval shall be rescinded. The institution will then be required to submit a new application for membership if it wants to be a member. See 12 C.F.R. § 933.7(d).

The FHLBank must provide appropriate notification to the Finance Board of each such rescinded approval. Such notification should be received by the Finance Board within 10 calendar days after the expiration of the stock purchase time period described above.

**CAPITAL STOCK: CAPITAL STOCK PURCHASE PROCEDURES**

2. Failure to purchase the full amount of the minimum stock requirement. After electing to purchase stock in installments, Applicants who fail to purchase the full amount of the minimum stock requirement after purchasing at least one installment may be subject to removal from membership at the Finance Board's discretion, pursuant to section 933.14 of the membership regulation. See 12 C.F.R. § 933.14.
3. Timing of initial stock purchase. An applicant shall not be permitted to purchase FHLBank stock until its application for membership has been approved.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications

CHAPTER: VI-C

CHAPTER: Capital Stock

PAGE: 1 of 6

SUBJECT: ATIP Calculation  
and Borrowing Capacity

DATE: November 17, 1993

1. PURPOSE. This section sets forth procedures for calculating an Applicant's Actual Thrift Investment Percentage ("ATIP") or Qualified Asset Ratio ("QAR"), including the methodology for applying the percentage in determining the borrowing capacity from a FHLBank based on a new member's initial stock purchase.
2. REFERENCE. Qualified Thrift Lender Reform Act of 1991, Home Owners Loan Act, 12 U-S-C. § 1467a(m)(i); Federal Home Loan Bank Act, 12 U-S-C. § 1430(e)(1); 12 C.F.,R. § 935.13 (Finance Board Advances Regulation).
3. SPECIAL CONDITIONS.
  - o Calculating ATIP for de novo institutions

## CAPITAL STOCK: ATIP CALCULATION AND BORROWING CAPACITY

### I. Background

Section 10(m) [Amended Section 1467a(m) of the Home Owners' Loan Act and the Qualified Thrift Lender Reform Act of 1991] require thrift institutions to maintain 65% of portfolio assets in certain domestic residential or manufactured housing or housing-related investments (Qualified Thrift Investments ("QTIs")) or be subject to certain penalties, including limited access to the FHLBanks' advances window. FIRREA imposed further restrictions on all borrowing members, including commercial banks and credit unions, that do not hold the required level of QTIs. See 12 U.S.C. § 1430(e). Consequently, the FHLBanks must monitor the ATIP (or QAR) of all non-savings association members according to established procedures and impose appropriate limitations.

To ensure that the FHLBanks are uniformly interpreting and applying the definitions for the ATIP calculation, particularly with regard to new members, this chapter provides instructions and definitions for calculating the ATIP and the borrowing capacity based on the initial capital stock purchase.

### II. Documentation

1. The attached worksheets (Exhibits A and B) can be completed by either the FHLBank (upon receipt of a membership application) or the Applicant (upon submission of a membership application) to calculate the ATIP. If the Applicant completes the worksheet, the FHLBank should conduct a comparative analysis, using appropriate financial data from the most recent regulatory financial report. Significant discrepancies must be resolved with the Applicant. Should new financial data become available prior to or at the time the Applicant is approved for membership, a new ATIP should be calculated.
2. Based on the initial stock purchase, borrowing capacity is determined as follows:

Borrowing Capacity = [Stock Amount x ATIP] divided by 5%

For example:

Initial Stock Purchase:	\$250,000
ATIP:	42.7%

Borrowing Capacity = [ \$250,000 x 42.7% ] divided by 5%  
= \$2,135,000

Therefore, the new member may receive advances of \$2,135,000 before additional capital stock must be purchased.



**CAPITAL STOCK: ATIP CALCULATION AND BORROWING CAPACITY**

**III. Special Conditions**

1. De novo institutions. Internal reports provided by the institution may be used to calculate an ATIP for automatically approved thrift de novo institutions that may not yet have filed regulatory financial data.

EXHIBIT A

COMMERCIAL BANKS

QUALIFIED ASSET RATIO WORKSHEET USING CALL REPORT DATA

Institution Name		City/State	
Account Number	Phone	Period Ending	

The calculation of the QAR is as follows:

Total Qualified Investments  
Total Portfolio Assets

The line items from your institution's call report can be used to estimate your Qualified Asset Ratio as follows:

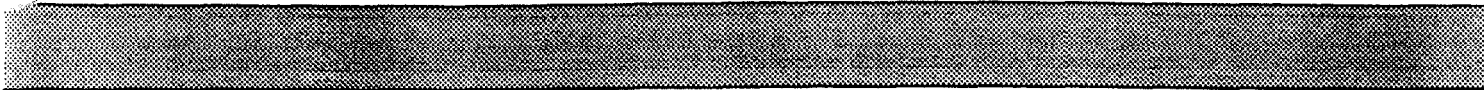
CALCULATION OF DENOMINATOR: TOTAL PORTFOLIO ASSETS		CALL REPORT LINE ITEMS		
1. Total assets.		RCFD2170	or RCON2170	1.
LESS:				
2. Goodwill and other intangible assets.		RCFD2143	or RCON2143	2.
3. Premises and fixed assets.		RCFD2145	or RCON2145	3.
<b>Liquidity - limited to 20% of total assets and less than 1 year except as noted.</b>				
4. Cash and balances due from depository institutions.		RCON0010	or RCON0081	4.
5. Federal funds sold.		RCON0276		5.
6. Securities purchased under agreements to resell.		RCON0277		6.
7. Investments in mutual funds.		RCON3637		7.
		RCON1756	RCON1757	
		or	RCON1755	8.
8. Domestic banker's acceptances.				
9. U.S. Treasury securities with a maturity of 5 years or less.*		RCON0400		9.
10. Other U.S. Government agency and corporation obligations with maturities of 5 years or less.*		RCON3765	& RCON3766	10.
11. Securities issued by state and local political subdivisions with maturities of 2 years or less.*		RCON3767	& RCON3768	
		&	RCON3769	11.
12. Other domestic debt securities with a maturity of 3 years or less*		RCON5363	or RCON5457	12.
13. The sum of lines 4 through 12.				13.
14. 20% of line 1.				14.
15. The lesser of lines 13 or 14.				15.
<b>Total Portfolio Assets (Line 1 minus lines 2, 3, and 15)</b>				<b>16.</b>
<b>CALCULATION OF NUMERATOR: QUALIFIED INVESTMENTS</b>				
<b>Real estate related loans and FHLB stock:</b>				
17. Open ended 1-4 family residential properties.		RCON1797		17.
18. Closed-ended 1st & 2nd loans secured by 1-4 family residential properties.		RCON5367	& RCON5368	18.
19. Loans secured by multifamily residential properties.		RCON1460		19.
20. Construction loans related to 1-4 family residential property.**		RCON1415		20.
21. Other Real Estate Owned (residential only)		RCON5510		21.
22. Stock issued by the Federal Home Loan Bank				22.
<b>23. Total Real Estate Related Loans and FHLB Stock (Sum of lines 17, 18, 19, 20, 21 and 22)</b>				<b>23.</b>
<b>Mortgage pool securities:</b>				
24. U.S. government-issued or-guaranteed certificates of participation in pools of residential mortgages, CMO(s) and REMIC(s).		RCON3760	& RCON3762	24.
		RCON0408	or RCON0429	
25. Privately-issued certificates of participation in pools of residential mortgages, CMO(s) and REMIC(s).		& RCON5361	or RCON5462	25.
<b>26. Total Mortgage Pool Securities (Sum of lines 24 and 25)</b>				<b>26.</b>
<b>Items limited to 20% of portfolio assets:</b>				
27. 50% of residential mortgage loans sold during the quarter. **		RCON3431		27.
28. Stock issued by the Federal Home Loan Mortgage Corporation (FHLMC) and/or the Federal National Mortgage Corporation (FNMA).....				28.
29. Loans for personal, family, household, or educational purposes.		RCON2008	& RCON2011	29.
30. 10% of line 16.				30.
31. The lesser of lines 29 or 30.				31.
32. The sum of lines 27, 28, and 31.				32.
33. 20% of line 16.				33.
34. The lesser of lines 32 or 33.				34.
<b>35. Total Qualified Investments (Sum of lines 23, 26 and 34)</b>				<b>35.</b>

Handwritten calculations and corrections:

- Line 24:  $1703 + 1706$
- Line 24:  $1698 + 1701$
- Line 24:  $1709 + 1711$  &  $1714 + 1714$
- Line 25:  $1718 + 1731$
- Line 26:  $1733 + 1735$

EXHIBIT A (Continued)

Qualified Asset Ratio (QAR):  $\frac{\text{Total Qualified Investments (line 35)}}{\text{Total Portfolio Assets (line 16)}} \times 100 =$



\* The amount due in 5 years can be estimated by multiplying the balance by the ratio of:  $\frac{(\text{RCON0343} + \text{RCON0344} + \text{RCON0345})}{\text{RCON0347}}$

The amount due in 3 years can be estimated by multiplying the balance by the ratio of:  $\frac{(\text{RCON0343} + \text{RCON0344} + (0.50 \times \text{RCON0345}))}{\text{RCON0347}}$

The amount due in 2 years can be estimated by multiplying the balance by the ratio of:  $\frac{(\text{RCON0343} + \text{RCON0344} + (0.25 \times \text{RCON0345}))}{\text{RCON0347}}$

- RCON0343 - Fixed rate debt securities maturing in 3 months or less.
- RCON0344 - Fixed rate debt securities maturing in over 3 months through 12 months.
- RCON0345 - Fixed rate debt securities maturing in over 1 year through 5 years.
- RCON0347 - Total fixed rate debt securities.

All call report line items are book value.

- \*\* This total includes all real estate construction and land development loans. An actual Qualified Asset Ratio would only include residential-related construction loans.
- \*\*\* This total includes all loans sold. An actual Qualified Asset Ratio would only include residential mortgage loans originated and sold within 90 days of origination.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: VII-A  
CHAPTER: Membership District                      PAGE: 1 of 3  
SUBJECT: Principal Place of Business                      DATE: November 17, 1993

1. PURPOSE. This section sets forth procedures to determine an Applicant's principal place of business for purposes of determining its appropriate membership district.
2. REFERENCE. Federal Home Loan Bank Act, 12 U.S.C. § 1424(b); 12 C.F.R. § 933.5.
3. SPECIAL CONDITIONS.
  - o Principal place of business for insurance companies.

## MEMBERSHIP DISTRICT:: PRINCIPAL PLACE OF BUSINESS

### I. Background

Under section 4(b) of the Federal Home Loan Bank Act, an institution meeting the membership eligibility requirements may only become a member of the FHLBank of the District in which its principal place of business is located, or of a FHLBank in an adjoining District if demanded by convenience and with the approval of the Finance Board. Section 933.5 of the Finance Board's membership regulation defines the term "principal place of business" and identifies criteria for assessing whether a state represents an institution's principal place of business. Accordingly, this chapter provides procedures for determining an Applicant's principal place of business.

### II. Documentation

1. Definition of Principal Place of Business. Unless otherwise designated in accordance with paragraph 2 below, a member's or Applicant's principal place of business is the state in which the institution maintains its home office, established as such in conformity with the laws under which the institution is organized.
2. Transfer of Membership. A member or an Applicant may request in writing to the FHLBank in the District where the institution maintains its home office (i.e., "home office" FHLBank) that a state other than the state in which it maintains its home office be designated as its principal place of business. Within 90 days of receipt of such written request, the board of directors of the "home office" FHLBank shall designate the state as the institution's principal place of business, provided all of the following factors are satisfied:
  - 0 At least 80% of the institution's accounting books, records and ledgers are maintained, located or held in such state;
  - 0 A majority of meetings of the institution's board of directors and constituent committees are conducted in such state; and
  - 0 A majority of the institution's five highest paid officers have their place of employment located in such state.

**MEMBERSHIP DISTRICT: PRINCIPAL PLACE OF BUSINESS**

The "home office" FHLBank shall send a written notice of such designation to the FHLBank to which the institution would be transferred for membership purposes, as well as to the Finance Board and the institution. However, a re-designation by the "home office" FHLBank cannot take effect until both FHLBank districts involved agree on an orderly method of transfer of membership. If such agreement is not reached, the Finance Board shall determine the conditions of the transfer.

Additionally, if the "home office" FHLBank fails to make the designation requested, the Applicant or member may request in writing that the Finance Board make the designation.

**III. Special Conditions**

1. Principal place of business for insurance companies. Under insurance law, an insurance company may designate as its principal place of business a location other than the home office listed in its articles of incorporation. For membership purposes, the FHLBank may designate an insurance company's principal place of business to be the location the insurance company has designated, provided that the Applicant documents both its designation of such other principal place of business and its regulator's agreement to the designation.



## UNIQUE CASES: DE NOVO INSTITUTIONS

### I. Background

For purposes of membership application approval analysis, a de novo institution is generally defined as an institution that has been in operation for three years or less. Occasionally, the institution's Federal or State regulator will extend the de novo status over a longer period of time. In that case, the regulator's definition will be used. The following procedures are required in evaluating and analyzing the eligibility of de novo Applicants:

### II. Documentation

1. Digest, financial condition analysis and additional justification/information for all areas of non-compliance must be submitted to the Finance Board.
2. An analysis of financial performance in relation to its regulatory business plan is required. The information should be presented as an attachment to the financial condition analysis.
3. Applicants must have a minimum of three quarters of operating history to be considered for membership.

### III. Business Plan Review

The purpose of a review of the Applicant's regulatory business plan is to ensure that the de novo institution is:

- (a) profitable or moving toward profitability;
- (b) adequately capitalized; and
- (c) growing in a manner consistent with the business plan.

De novo Applicants often do not have the full six quarters or four semiannual periods of financial data and performance history required for membership applications. Additionally, these Applicants often have not been formally rated by their regulator(s). A business plan review, therefore, will assist the FHLBank in making a determination about the institution's current and projected financial condition for purposes of membership eligibility.



## UNIQUE CASES: DE NOVO INSTITUTIONS

The business plan review must be presented as an appendix to the financial condition analysis and must include the following:

1. A discussion of the Applicant's regulatory business plan covering the first three years of operation, including a comparison of balance sheet and income statement projections relative to actual results.

Include a discussion of whether the business plan strategy is being followed, particularly relating to asset/liability growth and composition, and income/expenses.

2. In addition to the summary discussion above, provide financial tables (balance sheet and income statements) indicating variances from the business plan since operations began on an annual basis. If operations began within the last six quarters or four semiannual periods, prepare quarterly or semiannual comparisons, respectively.
3. In the event that the institution has not yet become profitable, provide an evaluation of start-up costs and projections for anticipated break-even or profitability.
4. Specific information about any special requirements or limitations set forth by the primary regulator in the business plan should be addressed, including compliance with these requirements.
5. **NOTE:** If there have been any material revisions to the original business plan, briefly describe the reasons for such revisions and the institution's subsequent progress under the revised plan.

### IV. Special Conditions

1. Review and approval by the Finance Board required.
2. CAMEL Ratings. De novo institutions may not have CAMEL ratings. Absent a formal rating, provide information about any evaluations by the institution's regulator(s), if available. Informal evaluations often occur prior to the first formal regulatory examination (including CRA examination) that result in preliminary ratings.



**UNIQUE CASES: DE NOVO INSTITUTIONS**

3. Minimum Capital Requirements. Regulators usually set forth specific capital requirements for newly organized financial institutions that are higher than the requirements for other institutions. Address the institution's compliance with special de novo minimum regulatory capital requirements.
4. Compliance with CRA. Absent a CRA rating, provide a discussion of how the Applicant intends to comply with the CRA. If the Applicant is not subject to the CRA, provide information about the Applicant's efforts relating to its community investment and housing finance activities to ensure adherence to the FHLBank System's housing finance mission. Describe how the Applicant has demonstrated support for the FHLBank System's mission. Obtain documentation and a description which indicates how the Applicant's credit policies and lending practices (if applicable) serve the credit needs of its community.
5. Special regulatory requirements. Discuss any special requirements imposed on the institution by its regulator(s), such as limitations on asset growth. Compliance with any special requirements should be addressed in the standard format used for enforcement actions.

Specifically, list the special requirements and state whether the Applicant is in "substantial compliance", "partial compliance" or "noncompliance" with each requirement. Please provide evidence to support compliance.

6. Satisfaction of the 10 percent residential mortgage loans requirement. Absent initial satisfaction of the 10 percent requirement, ensure that the Applicant intends to meet the 10 percent requirement within the first twelve months of its operations, as required by 12 U.S.C. § 1424 (a)(2).



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications                      CHAPTER: VIII-B  
CHAPTER: Unique Cases                                      PAGE: 1 of 10  
SUBJECT: Recent and Pending Mergers                      DATE: November 17, 1993

1. PURPOSE. This section sets forth procedures for processing an application from an institution that (1) has merged with or acquired another institution within the past six quarters of operation; or (2) has a merger or acquisition pending within the next two quarters of operation.
2. REFERENCE. None.
3. SPECIAL CONDITIONS.
  - o Review and approval by Finance Board required.
  - o Acquisitions from the Resolution Trust Corporation ("RTC") and FDIC-assisted acquisitions.
  - o Acquisition or assumption of certain assets and liabilities.

## UNIQUE CASES: RECENT AND PENDING MERGERS

### I. Background

The following guidelines are designed to assist the FHLBank in evaluating and analyzing the eligibility of Applicants that are the result of mergers and acquisitions that have occurred within the last six quarters of operation. These guidelines also apply to institutions that have an application pending at a regulatory agency or that have entered into serious merger discussions at the time of application for membership, where' such merger is expected to occur within the next two quarters. Merger discussions that have reached at least the definitive agreement or binding letter of intent stage are an indication of serious merger discussions. In some cases, the FHLBank may be aware that there is a potential merger but the merger discussions are only at a preliminary stage. In such cases, the FHLBank need only note in the Digest the status of the merger/ acquisition proposal and the names of the parties involved.

### II. Application Processing

A timing test and a materiality test have been established to determine how merged or pending merger applicants shall be processed for purposes of membership eligibility. The transaction must fall under both of the tests for additional analysis and documentation to be required for the membership application. An application that satisfies only one or none of the tests is processed under the standard Guidelines.

#### A. Timing Test

If the transaction does not fall under either of the following two timing tests, then the merger is not considered relevant to the application analysis and decision. Process the application under the standard Guidelines, and note the transaction in the Digest and financial condition analysis.

1. The Applicant merged within the last six quarters prior to submission of the Digest; or
2. The Applicant is party to a pending merger expected to occur within the next two quarters from submission of the Digest.

## UNIQUE CASES: RECENT AND PENDING MERGERS

### B. Materiality Test

If the transaction does not fall under either of the following two materiality tests, then the merger is not considered relevant to the application analysis and decision. Process the application under the standard Guidelines, and note the transaction in the digest and financial condition analysis.

- o The Applicant accounts for less than 75 percent of the combined assets of the resulting entity; or
- o The disappearing entity accounted for 25 percent or greater of the combined assets of the Applicant at the time of the merger.

### III. Consummated Merger - Requirements Where Applicant Meets Both the Timing and the Materiality Tests.

Example: Institution A merged with Institution B within the past six quarters resulting in Institution C. Institution C applies for membership. Emphasis should be placed on the current eligibility of Institution C, with a review of the financial condition of each institution prior to the merger. The Applicant and proposed new member is Institution C.

#### A. Statutory Requirements

Compliance with the statutory requirements is based on the most current information available on the Applicant following the merger.

#### B. Finance Board Review Standards

Compliance with Finance Board Review Standards for those institutions which have been examined and rated subsequent to the merger is only required for the Applicant institution.

Compliance with the Finance Board Review Standards for those Applicants which have not been rated and examined subsequent to the merger is required for each institution involved in the merger in addition to the Applicant institution.

Analysis of the Finance Board Review Standards shall be as follows:

1. CAMEL Rating: Review examination(s) and provide rating(s).
2. CR-A Rating: Review evaluation(s) and provide rating(s).

### UNIQUE CASES: RECENT AND PENDING MERGERS

3. Capital Compliance: Provide the Applicant's most recent capital ratios and regulatory capital requirements.
4. Earnings: Review the Applicant's earnings over the most recent six quarters of operation. Combine the earnings on a pro forma basis for those quarters prior to the merger.
5. Enforcement Action: Indicate whether the Applicant is currently subject to any enforcement action or special conditions pursuant to the merger. If applicable, follow the procedures outlined in Chapter III-E.
6. Auditor's Opinion: Review the auditor's opinion (director's report, etc.) for the Applicant subsequent to the merger. Auditor's opinions prior to the merger are not required.
7. Recent Financial Performance Trends: Summarize the financial performance trends described in the comprehensive financial analysis with particular attention to the Applicant. Any significant trends leading up to the merger or as a result of the merger should be discussed.
8. Management: Obtain the "character of management" certification for the resulting management team. It is also recommended that the FHLBank conduct a search of public records on the new management team.

See Exhibit A for a summary of the requirements described above.

#### C. Comprehensive Financial Analysis

Submission of the comprehensive financial analysis is required. The bullet-point commentary should address the financial performance trends since the merger. For those institutions which have been rated subsequent to the merger, a comprehensive analysis of the Applicant only is required along with a discussion of the background of the merger as detailed in Section D.

For those institutions which have not been rated subsequent to the merger, a comprehensive analysis of each party to the merger and the Applicant is required along with a discussion of the background of the merger as detailed in Section D.

## UNIQUE CASES: RECENT AND PENDING MERGERS

### D. Other Requirements

- o Discuss the background and specific reasons for the merger including the following:
  - Name of all entities involved and charter types.
  - General statement regarding the financial condition of each entity.
  - What are the business benefits that will result from the merger (economies of scale, reduced overhead, less competition)?
  - Which personnel will manage the merged entity? Is executive staff being reduced?
  - Does the certification of the character of management and the FHLBank's search of public records, if any, include all appropriate personnel in the new entity?
  - What will be the new entity's loan portfolio focus and expected product mix?
  - What is the expected asset growth rate for the new entity?

### IV. Pending Merger - Requirements Where Applicant Meets Both the Timing and Materiality Tests

Example: Institution A plans to merge with Institution B within **the** next two quarters resulting in Institution C. Institution A applies for membership. While Institution A is the Applicant, Institution C will be the new proposed member. Institution B is the target. Therefore, emphasis should be placed on the current eligibility of Institution A, with consideration given to the financial condition of Institution B and the proposed Institution C.

#### A. Statutory Requirements

Compliance with the statutory requirements is based on the most recent information available on the Applicant. Also provide **an estimate** of the post-merger residential mortgage loans ratio for Institution C.

**UNIQUE CASES: RECENT AND PENDING MERGERS**

**B. Finance Board Review Standards**

Analysis of the Review Standards shall be as follows:

1. CAMEL Rating: Obtain and review the examination report for the Applicant. Obtain and review the examination report for the target, if available. If unable to obtain the target's examination report, obtain the CAMEL rating and cite the efforts undertaken to obtain the examination report.
2. CRA Rating: Obtain and review the CRA Performance Evaluation or compliance examination report for the Applicant. Obtain and review the same for the target, if available. If unable to obtain this information on the target, seek to obtain the rating and cite the efforts undertaken to obtain the compliance examination report if not made available by the regulator.

Any regulator's comments on CRA compliance and performance made in relation to the proposed transaction should also be noted.

3. Capital Compliance: Provide the most recent capital ratios and regulatory capital requirements for the Applicant. Prepare an estimate of the capital ratios versus regulatory capital requirements for the resulting entity.
4. Earnings: Review the earnings from the most recent six quarters of operation for both the Applicant and the target. Calculate the earnings on a pro forma basis for the combined entity over this same period prior to the merger.
5. Enforcement Action: Indicate whether the Applicant is currently subject to any enforcement action. If applicable, follow the procedures outlined in Chapter III-E.

Indicate whether the target is currently subject to any enforcement action. If applicable, follow the procedures outlined in Chapter III-E.

Describe any special conditions anticipated pursuant to or as a condition of the merger. Is it contemplated that the resulting entity will be subject to any special agreements?



## UNIQUE CASES: RECENT AND PENDING MERGERS

6. Auditor's Opinion: Review the auditor's opinion (director's report, etc.) for the Applicant and the target.
7. Recent Trends: Summarize the trends described in the comprehensive financial analysis with particular attention to the Applicant. Summarize relevant trends for the target.
8. Management: Obtain the "character of management" certification for the resulting management team. Perform a search of public records (e.g., Lexis/Nexis) for information on the management team of the proposed entity, if possible.

See Exhibit B for a summary of the above requirements.

### C. Financial Condition Analysis

Submission of a financial condition analysis is required. The bullet-point commentary should address trends in the Applicant's financial condition prior to the merger, with a discussion of trends in financial performance for the target prior to the merger. Only pre-merger financial data for the Applicant is required.

### D. Other Requirements

Discuss the background and specific reasons for the merger as described in III.D. above.

In cases involving mergers pending with existing members, statutory requirement information and Finance Board Review Standards are only required for the non-member institution; a comprehensive analysis of the non-member is required. In addition, a discussion of the background of the merger as detailed in Section D is also required.

### v. Special Conditions

1. Review and approval by the Finance Board is required.
2. RTC and FDIC-Assisted Acquisitions. Due to the unique nature of RTC acquisitions and FDIC-assisted acquisitions, the above requirements do not apply in full. If both assets and liabilities are acquired, the FHLBank should report the total growth that occurred as a result of the acquisition, how long the assets/liabilities were under RTC or FDIC control, and any income recorded while under such control. The FHLBank is not required to combine any past

**UNIQUE CASES: RECENT AND PENDING MERGERS**

RTC/FDIC net income with the Applicant's net income. If only assets were acquired, the FHLBank should report the total growth that occurred as a result of the acquisition.

3. Acquisition/Assumption of certain assets and liabilities
  - o Identify source of acquisition/assumption (i.e., another institution, acquisition from a regulatory agency).
  - o Determine materiality of the transaction. If the assets acquired/assumed represent greater than 50 percent of the total consolidated assets of the resulting entity:
    - Identify the composition of assets/liabilities acquired or assumed;
    - Identify the amount of nonperforming assets valued at the current market value;
    - Identify the source of funds supporting the acquisition or assumption (i.e., capital infusion, premium paid by RTC);
    - Identify and discuss any other special conditions related to the acquisition or assumption which would have a material effect on the Applicant.

EXHIBIT A

Applicant Resulting from a Consummated Merger  
 - Statutory Criteria and Finance Board Review Standards

Element	Institution A	+	Institution B	=	Applicant
Statutory Criteria					x
CAMEL Rating	*		*		x
CRA Rating	*		*		x
Risk-based Capital					x
Leverage Capital					x
Earnings	x		x		x
Enforcement Action					x
Auditor's Opinion					x
Recent Trends	x		x		x

\* Provide the CAMEL and CRA ratings of Institution A and Institution B only if the Applicant has not yet been rated. If the Applicant has been rated since the merger, then ratings prior to the merger are not required.

EXHIBIT B

Applicant Involved in Pending Merger  
 - Statutory Criteria and Finance Board Review Standards

Element	Institution A*	Institution B	Institution C
Statutory Criteria	x	x	x
CAMEL Rating	x	x	
CRA Rating	x	x	
Risk-based Capital	x	x	x
Leverage Capital	x	x	x
Earnings	x	x	x
Enforcement Action	x	x	x
Auditor's Opinion	x	x	
Recent Trends	x	x	

\* Institution A is the Applicant.



# Membership Applications

## Guidelines

Federal Housing Finance Board  
District Banks Directorate

VOLUME: Membership Applications

CHAPTER: VIII-C

CHAPTER: Unique Cases

PAGE: 1 of 3

SUBJECT: Automatic Membership

DATE: November 17, 1993

1. PURPOSE. This section sets forth procedures to determine whether a newly chartered or converted institution is automatically a member of the FHLBank.
2. REFERENCE. Home Owners' Loan Act, 12 U.S.C. § 1464(f); Finance Board Membership Regulation, 12 C.F.R. § 933.2 (d), (e).
3. SPECIAL CONDITIONS.
  - o Membership withdrawals

UNIQUE CASES: AUTOMATIC MEMBERSHIP

I. Background

Section 5(f) of the Home Owners' Loan Act makes membership in the FHLBank System automatic for all federal savings associations and federal savings banks upon receiving their federal charters. By OTS regulation, membership is also automatic for state-chartered SAIF-insured savings associations until April 19, 1995. See 58 Fed. Reg. 14510 (March 18, 1993). The Finance Board believes that the factors considered in approving such institutions' charters are comparable to those factors which would be considered in approving an institution for FHLBank membership. In addition, the Finance Board's membership regulation provides that any insured depository institution member that converts to a different charter automatically becomes a member on the effective date of such conversion, provided the resulting institution continues to be an insured depository institution and the assets of the ~~institution immediately before and after the conversion are identical~~. Therefore, requiring such institutions to file membership applications is unnecessary and such institutions automatically become members of the FHLBank of the district in which their principal place of business is located. No application for membership is required to be filed with the FHLBank.

II. Documentation

1. New Charters. Institutions receiving either a federal savings association, federal savings bank, or state savings association charter have 60 calendar days from receipt of their charters (i.e., the date of membership approval) to purchase stock in the appropriate FHLBank.

The FHLBank will be notified of the existence of new automatic members through the membership data base process. The FHLBank must record the addition of such institutions to its membership on all related reports, records, and files.

2. Charter Conversions. Any insured depository institution member that converts to a different charter automatically becomes a member on the effective date of such conversion, provided the resulting institution continues to be an insured depository institution and the assets of the institution immediately before and after the conversion are identical. For example, a SAIF-insured savings association that converts to a commercial bank or state chartered savings bank automatically becomes a member on the effective date of such conversion.

The FHLBank must record the change in such institutions to its membership on all related reports, records and files.

UNIQUE CASES: AUTOMATIC MEMBERSHIP

III. Special Conditions

1. Membership Withdrawal. As with any other institution exiting the FHLBank System, a federal savings association member that converts to a commercial bank or state savings bank charter may withdraw from membership only after submitting a six-month written notice of its intention to terminate its membership to both the Finance Board and the appropriate FHLBank. See 12 U.S.C. § 1426(e); 12 C.F.R. § 933.13(a).

While the member may cancel the notice of withdrawal during the six-month period of notification, see 12 C.F.R. § 933.19(b), after membership has been terminated, the institution is prohibited from reacquiring membership for a period of ten years from the effective date of termination. See 12 U.S.C. § 1426(h).