



*Federal Housing Finance Board
Office of Supervision*

Date: October 04, 2001
To: Federal Home Loan Bank Presidents, Chief Credit Officers, and Directors of Internal Audit
From: Mitchell Berns, Director
Office of Supervision
Subject: Asset Review and Classification

Background: The Federal Home Loan Banks (FHLBanks) are expanding their asset bases to include asset types traditionally not held by the FHLBanks, such as credit-enhanced mortgages, housing finance bonds and other targeted investments. Such assets held by the FHLBanks may have inherent credit risks that must be monitored and measured.

Guidance: Procedures for the review and classification of assets would assist in the process of identifying problem assets, assure that assets are properly recorded on the FHLBanks' financial statements, and prevent further deterioration due to prompt identification and timely corrective action. FHLBank policies and procedures for the review and classification of assets should outline the standards for and frequency of reviews for various types of assets, identify the individuals and or committees responsible for the reviews, and establish the minimum reporting standards to the board of directors.

At a minimum, the FHLBanks should implement policies and procedures that require:

- Periodic reviews to identify problem assets;
- An estimation of the inherent losses in those assets and the establishment of reserves that are sufficient to absorb estimated losses;
- Comparison of problem asset totals to capital;
- Timely corrective action to resolve problem assets; and
- Submission of periodic asset reports with adequate information for management and the board of directors to assess portfolio risk.