



*Federal Housing Finance Board
Office of Supervision*

Date: October 24, 2001
To: Federal Home Loan Bank Presidents
From: Mitchell Berns, Director
Office of Supervision
Subject: Vigilance in Risk Monitoring

Senior management should review the continuing efficacy of policies, procedures and risk controls in light of weakening economic conditions and recent events. Upcoming Office of Supervision attention will include the following areas:

1. Unsecured Credit. Examiners will be asked to pay particular attention to each FHLBank's monitoring of unsecured credit positions, especially with respect to counterparties and concentrations captured in the monthly "Trends in FHLBanks System Unsecured Credit" report (e.g., credit to lower rated foreign counterparties). Advisory Bulletin 98-10 provides guidance in this area, including the observation that "sole reliance on credit ratings is not sufficient monitoring."
2. Credit and Collateral. Has the FHLBank considered whether policies and procedures (e.g., credit and collateral underwriting and, haircuts) continue to be appropriate in light of economic conditions and trends?
3. Asset/Liability Management. Has the FHLBank reviewed how its funding and hedging strategies have performed in light of recent changes in interest rates, and made appropriate adjustments?
4. Disaster Recovery. Has the FHLBank reviewed its disaster recovery and other back-up arrangements in light of recent events?

cc: Chief Financial Officers, Chief Credit Officers and Directors of Internal Audit