EM-1.3

Category: **General Information**

Topic: **Financial Institution Rating System**

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Introduction

Most financial institutions are categorized and rated by their respective regulators through the Uniform Financial Institutions Rating System. This system has been modified to reflect the non-depository nature of Farm Credit System (System) institutions and adopted by the Farm Credit Administration (FCA) to evaluate and categorize the safety and soundness of System institutions on an ongoing, uniform, and comprehensive basis. FCA's Financial Institution Rating System (FIRS), as outlined in FCA Board Policy Statement 72, provides valuable information for assessing risk and allocating resources based on the safety and soundness of regulated institutions. As such, it is a key component of FCA's risk assessment process. The FIRS also provides an effective mechanism for identifying problem or deteriorating institutions, categorizing institutions with deficiencies in particular component areas, and communicating the overall condition of the System to internal and external stakeholders.

This section of the Examination Manual provides an overview of the FIRS process and describes the general factors considered in assigning institution ratings. Refer to the FIRS Guide in Attachment 1 for a detailed description of the factors and criteria used in assigning ratings.

Overview

Although each institution has its own examination and supervisory issues and concerns, the FIRS is structured to provide a consistent rating system for all significant financial, asset quality, and management factors. Under the FIRS, each institution is assigned composite and component ratings based on an evaluation and rating of six essential components of an institution's financial condition and operations. These component factors address the adequacy of Capital, Assets, Management, Earnings, Liquidity, and Sensitivity to market risk, and are commonly referred to as "CAMELS." Evaluations of the components take into consideration many factors, including the institution's size, complexity, and risk profile.

Composite and component ratings are assigned based on a 1 to 5 numerical scale. A 1 is the highest rating, and indicates the strongest level of performance and risk management practices, and the least degree of supervisory concern, while a 5 is the lowest rating, and indicates the weakest performance, inadequate risk management practices and, therefore, the highest degree of supervisory concern.

The composite rating generally bears a close relationship to the component ratings assigned. Each component rating is based on an analysis of the factors comprising that component and its interrelationship with the other components. When assigning a composite rating, some components may be given more weight than others depending on the risk exposure at the institution. In general, assignment of a composite rating may incorporate any factors that weigh significantly on the overall condition and soundness of the institution.

The ability of management to respond to changing circumstances and to address risks that may arise from changing business conditions is an important factor in evaluating an institution's overall risk profile and the level of supervisory attention warranted. For this reason, the management component is given special consideration when assigning a composite rating. While the evaluation of management requires examiner judgment, FCA has developed a FIRS Guide (Attachment 1) to provide a list of key factors for examiners to consider in evaluating management and related guidance in assessing each of these factors.

The level and management of risk are also taken into account when assigning the composite and component ratings. These risks include credit, interest rate, liquidity, operations, compliance, strategic, and reputation risk. Management's ability to identify, measure, monitor, and control these risks is a key factor in the rating process. While all institutions are expected to properly manage their risks, it is recognized that appropriate management practices vary considerably among financial institutions, depending on their size, complexity, and risk profile.

For less complex institutions engaged solely in traditional lending activities and whose directors and senior managers, in their respective roles, are actively involved in the oversight and management of day-to-day operations, relatively basic management systems and controls may be adequate. At more complex institutions, on the other hand, detailed and formal management systems and controls are needed to address their broader range of financial activities and to provide senior managers and directors, in their respective roles, with the information they need to monitor and direct day-to-day activities.

FCA Ratings

As detailed in the attached FIRS Guide, FCA utilizes a 1 through 5 scale to assess a composite rating and the six key performance components upon which the composite rating is principally based (i.e., Capital, Assets, Management, Earnings, Liquidity, and Sensitivity). These components are assessed by considering a wide range of factors and applying examiner judgment. While examiner judgment is of paramount importance in the rating process, the Office of Examination maintains quantitative and qualitative factors to assist examiners in their evaluations and promote a consistent application of rating criteria. These factors include benchmarks for evaluating the capital, assets, earnings, and liquidity of direct lender associations (the benchmarks are also considered for banks, as applicable), other criterion applicable to all System institutions, and the rating definitions for each component. This section summarizes the key factors outlined in the FIRS Guide.

Capital

A financial institution is expected to maintain capital commensurate with the nature and extent of risks to the institution and the ability of management to identify, measure, monitor, and control these risks. The effect of credit, interest rate, and other risks on the institution's financial condition should be considered when evaluating the adequacy of capital. The types and quantity of risk inherent in an institution's activities will determine the extent to which it may be necessary to maintain capital at levels above required regulatory minimums to properly reflect the potentially adverse consequences that these risks may have on the institution's capital.

The evaluation of an institution's capital adequacy focuses on its capacity to absorb losses and provide for future growth. Capital is rated based on, but not limited to, such factors as:

- The quantity of capital, e.g., common equity tier 1, tier 1, and total regulatory capital in relation to the minimum regulatory requirements, conservation buffers, the board's capital goals and objectives, and peer levels.
- The quality of capital, composition of the capital structure, and the stability of the capital position, e.g., trends, asset growth, earnings, capital distributions, and stock retirement.
- The risk exposure to capital, e.g., the overall level of credit, interest rate, liquidity, operations, strategic, reputation, compliance, and counterparty risk relative to the institution's capital position.
- The overall quality and strength of capital management and compliance with capital-related regulations, including actions to assess and plan for the institution's capital needs, build capital sufficient to meet growth and risk expectations, and protect and add value to shareholder investments.

Assets

The assets rating reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, and other assets. Management's ability to identify, measure, monitor, and control credit risk is also reflected here. The evaluation of asset quality should consider the adequacy of the allowance for credit losses and weigh the exposure to counterparty, issuer, or borrower default under actual or implied contractual agreements. All other risks that may affect the value or marketability of an institution's assets, including, but not limited to, operating, market, reputation, strategic, or compliance risks, should be considered. Assets are rated based on, but not limited to, such factors as:

- The level, composition, severity, and trends of criticized, adverse, delinquent, restructured, and nonaccrual assets for both on- and off-balance sheet transactions.
- The existence of commodity, large loan, investment, or other concentrations.
- The quality, composition, and rate of asset growth.
- Credit risk arising from or reduced by off-balance sheet transactions, such as unfunded commitments, credit derivatives, standby letters of credit, and lines of credit.
- The adequacy of loan portfolio management, including portfolio planning and analysis, loan underwriting direction, concentration risk management, collateral risk management, and other credit internal controls.
- The internal credit review process and appropriateness of risk identification and reporting practices.
- Credit administration standards, practices, and controls.
- The adequacy of the allowance for credit losses process.
- Adequacy of investment portfolio management, including investment portfolio planning, policies and procedures regarding credit and market value risks to the investment portfolio, and compliance with FCA Regulations and guidelines.

Management

The management rating reflects the capability of the board and management, in their respective roles, to identify, measure, monitor, and control the risks of an institution's activities and to ensure the institution operates in a safe, sound, and efficient manner and complies with applicable laws and regulations, while also serving its public mission. Sound management practices are demonstrated by active oversight by the board and management; competent personnel; adequate policies, processes, and controls (taking into consideration the size, complexity, and risk profile of the institution); maintenance of an appropriate audit program and internal control environment; and effective risk

monitoring and management. The capability and performance of the board and management are rated based on, but not limited to, such factors as:

- The level and quality of direction, control, and governance provided by the board, including an emphasis on ethics and adherence to standards of conduct.
- Responsiveness to recommendations from auditors and supervisory authorities.
- Reasonableness of compensation policies and avoidance of self-dealing.
- The adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities.
- The adequacy of audits and internal controls to: promote effective operations and reliable financial and regulatory reporting; safeguard assets; and ensure compliance with laws, regulations, and internal policies.
- The extent to which the board and management are affected by, or susceptible to, dominant influence or concentration of authority.
- The capability, depth, succession, and performance of executive management.
- The institution's business strategy, planning process, and strategic, operational, capital, and business continuity plans.
- Risk management and the ability of the board and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the initiation of new activities or products.
- Management of information technology operations and security including cybersecurity threats and vulnerabilities.
- Demonstrated willingness and ability to meet the institution's public mission.
- Compliance with laws and regulations.

Earnings

The evaluation of earnings focuses on the quantity, quality, and sustainability of the institution's earning performance. The quantity and quality of earnings can be affected by excessive or inadequately managed credit risk that may result in loan losses and require additions to the allowance for credit losses, or other risks that may unduly expose an institution's earnings to volatility. Future earnings may be adversely affected by an inability to forecast or control funding and operating expenses, improperly executed or ill-advised business strategies, or poorly managed or uncontrolled exposure to other risks. Earnings are rated based on, but not limited to, such factors as:

- The quantity of earnings compared to applicable standards, financial goals, and peer group performance.
- The quality, composition, and stability of net income.
- The risk exposure to earnings, e.g., the overall level of credit, interest rate, liquidity, operations, strategic, reputation, compliance, and counterparty risk relative to the institution's earnings capacity.
- The quality of earnings management, e.g., philosophy, goals, planning, loan pricing, operating efficiency, etc.

Liquidity

An institution's liquidity is evaluated according to its capacity to promptly meet the demand for payment of its obligations and to readily meet the reasonable credit needs of the territory it serves. In evaluating the adequacy of an institution's liquidity position, consideration should be given to the current level and prospective sources of liquidity compared to funding needs, as well as to the adequacy of funds management practices relative to the institution's size, complexity, and risk profile. Practices

should reflect the ability of the institution to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. In addition, funds management practices should ensure that liquidity is not maintained at a high cost, or through undue reliance on funding sources that may not be available in times of financial stress or adverse changes in market conditions. Liquidity is rated based on, but not limited to, such factors as:

- The adequacy and stability of liquidity sources to meet present and future needs and the ability of the institution, including the financial strength of the funding bank.
- Existence of secondary sources of liquidity, e.g., marketable investments, marketable loans, and supplemental lines of credit.
- Nature and magnitude of liquidity demands, e.g., debt payments, loan demand, litigation, near-term capital expenditures, operating expenses, and any capital distributions or stock retirements to be paid in cash.
- The quantity, quality, and trends in collateral.
- Strength of other CAMELS factors, cost of available funding, and loanable funds position.
- For associations, General Financing Agreement (GFA) compliance and borrowing margin on the direct loan.
- For banks, performance under any operative System self-discipline mechanisms, e.g., the Market Access Agreement and the Contractual Interbank Performance Agreement (CIPA).
- Liquidity management, e.g., the capability of management to properly identify, measure, monitor, and control the institution’s liquidity position, including the effectiveness of funds management strategies, liquidity policies, management information systems, and contingency funding plans.

Sensitivity

This component reflects the degree to which changes in interest rates can adversely affect an institution's earnings or the market value of equity (MVE). When evaluating this component, consideration should be given to management's ability to measure, manage, and control interest rate risk; the institution's size; the nature and complexity of asset/liability management activities; and the level of interest rate risk exposure relative to the adequacy of capital and earnings. One of the primary sources of interest rate risk arises from on- and off-balance sheet positions and their sensitivity to changes in interest rates. For associations that use the funding bank’s transfer pricing program, the level of interest rate risk depends largely on the extent to which assets are matched to transfer rates.

Sensitivity is rated based on, but not limited to, such factors as:

- The sensitivity of the institution's earnings or MVE to adverse changes in interest rates.
- The nature and complexity of interest rate risk exposure arising from on- and off-balance sheet positions.
- The extent to which the repricing, terms, and options on assets are matched to the funding (or funds transfer rates).
- The ability of management to identify, measure, monitor, and control exposure to interest rate risk given the institution's size, complexity, and risk profile.

Assignment of Ratings

Ratings assigned to System institutions under the FIRS will be reviewed on an ongoing basis and adjusted as needed to accurately reflect the current condition of institutions and FCA’s level of supervisory concern. Ratings are reviewed anytime there is a material change in the institution’s risk profile, financial condition, performance, and management, and upon the receipt of quarterly Call Report information.

The Examiner-in-Charge (EIC) is responsible for reviewing and updating ratings as needed. The EIC, or designee, documents this review by completing an internal FIRS Report any time a rating is changed and upon the receipt and review of quarterly Call Report information. The FIRS Report includes the basis for any rating changes, or in the case of a quarterly review of Call Report information, updated financial information, statistics, and qualitative ratings supporting the existing ratings. FIRS Reports completed in conjunction with the statutory compliance date (SCD) examination, FIRS Reports completed on institutions with composite or component ratings of 3, 4, or 5, and any FIRS Reports indicating a change in ratings include additional documentation to reflect the increased level of analysis completed in these instances.

Completed FIRS Reports are subject to supervisory review and do not establish or change FCA's official FIRS ratings of record until approved by the reviewing official. For institutions under special supervision or enforcement actions, recommended rating changes are discussed with the Risk Supervision Division.

Disclosure of Ratings

While the FIRS is FCA's rating system, which is maintained to meet the specific needs of its oversight and examination program, FIRS ratings are disclosed to System institutions to enhance communications and the System's understanding of FCA's regulatory approach. In that regard, FIRS composite and component ratings are reported to each institution's board of directors and chief executive officer (CEO) at least once every examination cycle, in conjunction with the SCD report of examination. They are also reported whenever a composite or component rating is changed. FCA will provide a quarterly summary of association FIRS ratings in each respective district to the affiliated funding bank for its confidential use in oversight and servicing of the direct loans.

FIRS ratings are formally reported to the board chairman and CEO in a letter, with a copy to the funding bank. The letter is subject to the same confidentiality requirements as those established for Reports of Examination. Whenever a FIRS rating is changed, the letter will communicate the basis for that change and offer to discuss the change with the board and management. Any conditions leading to a potential rating downgrade will first be discussed with institution management, and where needed, accompanied by additional examination activities or a meeting with the board to confirm the conditions and obtain management's response. In those instances where the composite rating is lowered to a 3 or worse, the FIRS letter will typically be hand delivered to the board as part of a meeting to discuss the FIRS ratings and FCA's supervisory concerns.

FIRS Guide

Composite Rating Definitions	
1	Institutions in this group are sound in every respect and generally have components rated 1 or 2. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. These institutions are the most capable of withstanding the vagaries of business conditions and are resistant to outside influences such as economic instability in their trade area. These institutions are in substantial compliance with laws and regulations. As a result, these financial institutions exhibit the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile, and give no cause for supervisory concern.
2	Institutions in this group are fundamentally sound. For an institution to receive this rating, generally no component rating should be more severe than 3. Only moderate weaknesses are present and are well within the board of director's and management's capabilities and willingness to correct. These institutions are stable and are capable of withstanding business fluctuations. These institutions are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile. There are no material supervisory concerns and, as a result, the supervisory response is informal and limited.
3	Institutions in this group exhibit some degree of supervisory concern in one or more of the component areas. These institutions exhibit a combination of weaknesses that may range from moderate to severe; however, the magnitude of the deficiencies generally will not cause a component to be rated more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Institutions in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those institutions rated a composite 1 or 2. Additionally, these institutions may be in significant noncompliance with laws and regulations. Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile. These institutions require more than normal supervision, which may include recommendation for formal enforcement actions. Failure appears unlikely, however, given the overall strength and financial capacity of these institutions.
4	Institutions in this group exhibit unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory performance. The problems range from severe to critically deficient. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. Institutions in this group generally are not capable of withstanding business fluctuations. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the institution's size, complexity, and risk profile. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems. Failure is a distinct possibility if the problems and weaknesses are not satisfactorily addressed and resolved.
5	Institutions in this group exhibit extremely unsafe and unsound practices or conditions; exhibit a critically deficient performance; often demonstrate inadequate risk management practices relative to the institution's size, complexity, and risk profile; and are of the greatest supervisory concern. The volume and severity of problems are beyond management's ability or willingness to control or correct. Immediate outside financial or other assistance is needed in order for the institution to be viable. Ongoing supervisory attention is necessary.

Capital			
Quantitative Factors	**Benchmarks***		
	1 Rating	**2 Rating**	**3+ Rating**
Total Regulatory Capital Ratio	> 14.5%	≥ 10.5%	< 10.5%
Tier 1 Capital Ratio	> 13%	≥ 8.5%	< 8.5%
Common Equity Tier 1 Capital Ratio	> 11.5%	≥ 7%	< 7%
Tier 1 Leverage Ratio	> 6%	≥ 5%	< 5%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	> 2%	≥ 1.75%	< 1.75%
Adverse Assets/Total Regulatory Capital	< 25%	≤ 75%	> 75%
Criticized Assets/Total Regulatory Capital	< 60%	≤ 125%	> 125%

** While FCA primarily established the FIRS benchmarks for rating associations, these capital benchmarks will also be applied to banks.*

Other Statistics Considered:

Total Capital
Total Capital/Total Assets
Total Regulatory Capital
Permanent Capital Ratio

Sustainable Growth Rate (preceding 12 months)
Cash Dividends & Patronage (preceding 12 months)
Total Regulatory Capital Ratio Net of Potential Losses on Adverse Assets

Qualitative Factors	**Risk Quantity**		
	Low Risk	**Moderate Risk**	**High Risk**
Capital Adequacy	Capital levels generally meet the 1-Rating benchmarks, with ample capital buffers against unforeseen adversity. Threats to capital are managed to a minimal level, and all capital ratios are within board goals.	Capital levels meet the 2-Rating benchmarks, with threats to capital at a manageable level. Trends are generally stable or deteriorating moderately.	Capital levels are at or below the 3-Rating benchmarks and may be deteriorating. Threats to capital are beginning to become significant and warrant supervisory attention.
	Capital quality is strong and is appropriate for the expected demands on capital, including capital distributions, stock retirement, asset growth, or earnings declines. Common equity tier 1 capital, including unallocated retained earnings, enhances capital stability and provides adequate shareholder protection.	The institution is not excessively reliant on lower quality or unstable sources of capital, or sources outside of management's control.	Capital quality is unsatisfactory. The institution is excessively reliant on lower quality sources of capital. Capital position is unstable and may be adversely impacted by capital distributions, stock retirement, asset growth, earnings declines, or credit, interest rate, or other types of risk.
	The overall level of credit, interest rate, liquidity, operations, strategic, reputation, and compliance risk is low relative to capital. Risk exposure from counterparties and non-traditional activities is minimal.	The overall level of credit, interest rate, liquidity, operations, strategic, reputation, and compliance risk is moderate relative to capital. Capital is not exposed to significant counterparty risk or risks associated with non-traditional activities.	The overall level of credit, interest rate, liquidity, operations, strategic, reputation, and compliance risk is high relative to capital. Risk exposures are significant and not effectively managed. Risks from counterparties and non-traditional activities may be excessive.
	Retained earnings or other readily-available capitalization alternatives are sufficient to	Asset growth poses a moderate threat to the institution's capacity to maintain sound	Inability to capitalize asset growth poses a significant threat to capital adequacy.

Qualitative Factors	Risk Management		
	capitalize asset growth and maintain sound capital levels.	capital levels.	
	Strong	**Satisfactory**	**Weak**
Capital Management	Management proactively monitors and manages capital and potential threats to capital. The capital plan complies with FCA Regulations, provides a sound basis for capital goals, contains sound and effective strategies for maintaining adequate capital, and provides for ample capital buffers against unforeseen adversity. Robust processes, data, and analyses, including stress testing, are effectively used to assess capital needs, evaluate capital adequacy, and establish capital goals. Capital distribution programs are effectively managed and do not threaten capital adequacy. Effective policies, procedures, and internal controls establish a framework for maintaining adequate capital and controlling risk.	Management adequately monitors and manages capital. The capital plan addresses the minimum areas required by FCA Regulations and adequately supports capital goals. Management processes, data, and analyses to evaluate capital adequacy and capital needs, including stress testing, are sufficient and generally commensurate with institution risks. Capital distribution programs are adequately managed and do not significantly threaten capital adequacy. Policies, procedures, and internal controls adequately identify and control threats to capital.	Management inadequately monitors and manages capital. Significant weaknesses exist in processes for identifying and addressing emerging capital needs and threats. The capital plan does not contain adequate strategies to assure adequate capital and may not comply with FCA Regulations. Management processes, data, and analyses, including stress testing, are insufficient to evaluate capital adequacy, assess capital needs, or establish capital goals commensurate with institution risks. Capital distribution programs are mismanaged or threaten the ability to achieve or maintain sound capitalization. Policies, procedures, and internal controls may be insufficient to identify and control threats to capital.

Capital Rating Definitions	
1	The institution is well-capitalized. The level and quality of capital are strong relative to the institution's risk profile, with an ample capital buffer against expected and unexpected adversity. Management proactively monitors and manages capital and potential threats to capital and has sound capitalization strategies.
2	The institution is adequately capitalized. The level and quality of capital are adequate relative to the institution's risk profile, with a sufficient capital buffer against expected and unexpected adversity. Management adequately monitors and manages capital and potential threats to capital and has acceptable capitalization strategies.
3	The institution is under-capitalized. Even if capital levels exceed minimum regulatory requirements, the level or quality of capital is inadequate relative to the institution's risk profile and expected and unexpected adversity. Management does not adequately monitor and manage capital or potential threats to capital or has insufficient capitalization strategies.
4	The institution is significantly under-capitalized. The level or quality of capital is deficient to the extent that the institution's viability may be threatened. Assistance from external sources may be required. Management's capitalization strategies are unsatisfactory.
5	The institution is critically under-capitalized. The level or quality of capital is critically deficient such that the institution's viability is threatened. Immediate assistance from external sources is required.

Assets

Quantitative Factors	Benchmarks		
	1 Rating	2 Rating	3+ Rating
Adverse Assets/Total Regulatory Capital	< 20%	≤ 50%	> 50%
Criticized Assets/Total Regulatory Capital	< 50%	≤100%	> 100%
Past Due ≥ 30 Days/Gross Loan Items	< 2%	≤ 5%	> 5%
Nonaccrual Assets/Gross Loan Items	< 1.5%	≤ 4%	> 4%
Special Mention Assets/Total Classified Assets	< 5%	≤ 10%	> 10%
Adverse Assets/Total Classified Assets	< 5%	≤ 10%	> 10%

Other Statistics Considered:

Total Assets
Total Asset Growth (preceding 12 months)
Gross Loan Items
Allowance for Credit Losses
Allowance for Credit Losses – Debt Securities
Net Loan Items
Net Chargeoffs/Average Gross Loan Items (YTD)
Allowance for Credit Losses/Gross Loan Items
Allowance for Credit Losses/Nonaccrual Assets
Reserve for Credit Losses on Off-Balance Sheet Exposures
Top 10 Loan Commitments/Total Regulatory Capital
Adverse Assets (excluding direct loans)/Total Regulatory Capital (Banks Only)
Criticized Assets (excluding direct loans)/Total Regulatory Capital (Banks Only)

Qualitative Factors	Risk Quantity		
	Low Risk	Moderate Risk	High Risk
Portfolio Quality & Composition	Asset quality generally meets the 1-Rating quantitative benchmarks. Risk exposure from concentrations and asset growth is low. Credit quality trends are stable to positive, and credit risks are well-managed.	Asset quality generally meets the 2-Rating quantitative benchmarks. Risk exposure from concentrations and asset growth is moderate. Credit quality may be somewhat unstable or trends slightly adverse, but credit risk is appropriately managed.	Asset quality is at or below several of the 3-Rating quantitative benchmarks. Risk exposure from concentrations or asset growth may be high. Prospects for increasing risk are substantial, and risks may not have been adequately identified or managed.
	Composition and quality of new loans is sound. The growth rate is fully supported by capital resources and management abilities.	Composition and quality of new loans is satisfactory. The growth rate is reasonable considering capital resources and management abilities.	Composition and quality of new loans is unsatisfactory, or the growth rate exceeds capital resources or management abilities.
	There is limited exposure to deteriorating economic, industry, competitive, regulatory, or technological factors.	Some exposure exists due to deteriorating economic, industry, competitive, regulatory, or technological factors.	Significant exposure exists due to deteriorating economic, industry, competitive, regulatory, or technological factors.
	Credit-related losses do not materially impact current reserves and result in minimal provisions relative to earnings.	Credit-related losses do not seriously deplete current reserves or necessitate large provisions relative to earnings.	Credit-related losses may seriously deplete current reserves or necessitate large provisions relative to earnings.

Qualitative Factors	Risk Management		
	Strong	Satisfactory	Weak
Allowance for Losses	The allowance for credit losses on loans is well-funded.	The allowance for credit losses on loans is adequately funded.	The allowance for credit losses on loans is not adequately funded.
	The allowance for credit loss methodology is sound and provides strong support for the resulting allowance.	The allowance for credit loss methodology adequately supports the resulting allowance.	The allowance for credit loss methodology is flawed or does not support the allowance.

Investments	Investment quality is sound and stable. Current and prospective investment quality does not pose significant risk to capital and earnings. Investment portfolio management is effective. Risk is accurately identified and sound processes exist for measuring investment risks. Policies, risk limits, procedures, plans, committee oversight, internal controls, and risk management and measurement systems are commensurate with the unique complexities and purposes of investments and assure compliance with regulations. The allowance for credit losses on debt securities is well-funded. Reporting is comprehensive and sufficient to fully understand the unique complexities and risks in investments and the extent to which investments are accomplishing intended purposes.	Investment quality is acceptable but may be somewhat unstable. Investments pose moderate risk to capital or earnings. Investment portfolio management is satisfactory, although some weaknesses may exist. Risk identification is acceptable. Investment portfolio management and internal controls may have some weaknesses but are acceptable and commensurate with investment and portfolio complexity. The allowance for credit losses on debt securities is adequately funded. Reporting is adequate and generally sufficient to understand portfolio risks and the extent to which investments are accomplishing intended purposes.	Investment quality is unacceptable and may be unstable. Investments pose significant risk to capital or earnings. Material weaknesses exist in investment portfolio management that may contribute to increased risk. Significant weaknesses exist in risk identification. Investments or related management processes do not comply with regulations. Due diligence on new or existing investments may be weak. Internal controls are weak and allow for material deficiencies in investment quality and management processes. The allowance for credit losses on debt securities is not adequately funded. Reporting is insufficient to monitor risks or determine if investments are accomplishing intended purposes.
Portfolio Planning & Analysis	Management fully addresses all significant aspects of credit risk as part of the planning process and anticipates and proactively deals with changes in market conditions. Portfolio risk measurement and monitoring systems (e.g., stress testing, migration analysis, collateral risk analysis, identifying and reporting the sources and quality of new volume, etc.) are comprehensive and validated. Information systems and reporting processes fully disclose risk in a timely manner. Asset growth is effectively managed through diligent planning and sound risk management processes. Growth objectives and portfolio strategies reflect effective use of lending authorities and service to the chartered territory, and fully consider	Management addresses the important aspects of credit risk as part of the planning process, and adequately responds to changes in market conditions. Portfolio risk measurement and monitoring systems are satisfactory. Information systems and reporting processes adequately disclose risk. Asset growth is managed through reliable planning and adequate risk management processes. Growth objectives and portfolio strategies reflect satisfactory use of lending authorities and service to the chartered territory, and adequately consider	Management does not adequately address important aspects of credit risk as part of the planning process or anticipate and respond to changing market conditions. Portfolio risk measurement and monitoring systems have significant weaknesses. Information systems or reporting processes may have material deficiencies. Asset growth may not be adequately planned or managed. Growth objectives and portfolio strategies fail to adequately utilize lending authorities or provide service to the chartered territory, or inadequately consider

	diversification and mission fulfillment.	diversification and mission fulfillment.	diversification or mission fulfillment.
Risk Identification	Risk identification processes are fully effective. Comprehensive policies and procedures effectively direct proper risk identification. There are no notable risk identification weaknesses present and credit classifications accurately reflect portfolio quality. Risk rating processes are consistent with established guidance and result in accurate reporting of ratings. The internal credit review process is comprehensive, timely, and ensures accurate risk identification.	Risk identification processes are effective with only modest weaknesses. Policies and procedures adequately direct proper risk identification. While some risk identification weaknesses may be present, they are at an acceptable level. Inaccurate credit classifications are less than 5 percent of volume examined. Risk rating processes are generally consistent with established guidance and result in no material inaccuracies in reporting of ratings. While some improvement may be needed, the internal credit review process ensures reliable risk identification.	Risk identification processes are ineffective. Policies and procedures do not provide adequate direction for proper risk identification. Material risk identification weaknesses are evident. Inaccurate credit classifications exceed 5 percent of volume examined and corrective action is required. Risk rating processes are not consistent with established guidance and result in material inaccuracies in reporting of ratings. The internal credit review process does not ensure reliable risk identification.
Credit Administration	Credit administration is sound. Strong policies, procedures, and practices result in effective credit administration. Credit analysis on individual loans is comprehensive, with effective loan terms, conditions, and servicing. Lending activities comply with regulatory requirements related to eligibility and scope of financing, lending authorities, chartered territories, and loan purchases and sales. Internal controls, including segregation of duties around lending functions, are effective and provide reasonable assurance that strong credit administration practices are in place. Delegated lending authorities, loan committees, and management supervision are used to promote a strong credit culture and sound lending decisions. The internal credit review process is effective and ensures credit administration	Credit administration is satisfactory, with only minor weaknesses. Policies, procedures, and practices are satisfactory. Credit analysis on individual loans is satisfactory, with effective loan terms, conditions, and servicing. Lending activities generally comply with regulatory requirements related to eligibility and scope of financing, lending authorities, chartered territories, and loan purchases and sales. Internal controls, including segregation of duties around lending functions, are generally effective and provide reasonable assurance that satisfactory credit administration practices are in place. Delegated lending authorities, loan committees, and management supervision are used to ensure generally sound lending decisions. The internal credit review process is generally effective, identifies weaknesses, and	Credit administration weaknesses are significant. Policies, procedures, or practices are ineffective. Credit analysis on individual loans is weak, with ineffective loan terms, conditions, or servicing. Lending activities do not always comply with regulatory requirements related to eligibility and scope of financing, lending authorities, chartered territories, or loan purchases and sales. Internal controls, including segregation of duties around lending functions, are ineffective and do not provide reasonable assurance that sound credit administration practices are in place. Delegated lending authorities, loan committees, and management supervision are not effectively used, and sound lending decisions are not enforced. The internal credit review process is not effective in identifying material weaknesses

	weaknesses are identified and corrected timely.	ensures appropriate corrective actions.	and ensuring timely corrective actions.
Concentration Risk Management	Risk concentrations are effectively identified and managed. Sound risk parameters are established in relation to capital and earnings, with comprehensive monitoring and reporting. Policies and processes effectively control on- and off-balance sheet concentration risk exposure, e.g., commodities, geographic, large loans, interdependence/ affiliated risk, counterparty risk, etc.	Risk concentrations are generally identified, and significant concentrations are adequately managed. Adequate risk parameters are established, with sufficient monitoring and reporting. Policies and processes generally mitigate and control significant concentration risk exposure, e.g., through loan underwriting standards, hold limits, proper loan attribution, identifying and reporting on counterparty risk and interdependence/affiliated risk, etc.	Risk concentrations are not fully identified or adequately managed. Insufficient risk parameters exist in relation to capital and earnings, with ineffective monitoring and reporting. Policies and processes do not sufficiently mitigate or control material concentration risk exposure.
Loan Underwriting Direction	Underwriting direction and processes result in a sound loan portfolio and are consistent with the board's risk appetite and strategic objectives. Underwriting standards are comprehensive, closely monitored, and adjusted to ensure they remain sound. Underwriting exceptions are fully justified, tracked, and reported.	Underwriting direction and processes result in satisfactory loan quality and are generally consistent with the board's risk appetite and strategic objectives. Underwriting standards are generally satisfactory and are monitored and adjusted to ensure they remain adequate. Underwriting exceptions are adequately tracked and reported.	Underwriting direction and processes result in excessive portfolio risk or do not meet the board's risk appetite or strategic objectives. Underwriting standards are incomplete, outdated or overly lax. Underwriting exceptions are not adequately controlled, tracked, or reported.
Collateral Risk Management	Comprehensive direction, processes, and controls exist to identify, report, and manage collateral risk in individual loans and the portfolio, resulting in low collateral risk exposure. Effective processes and controls exist to produce timely, accurate, and reliable collateral evaluations.	Adequate direction, processes, and controls exist to identify, report, and manage collateral risk in individual loans and the portfolio, resulting in moderate collateral risk exposure. While some improvement may be warranted, adequate processes and controls exist to produce timely, accurate, and reliable collateral evaluations.	Direction, processes, and controls to identify, report, and manage collateral risk are inadequate for individual loans or the portfolio, resulting in material collateral risk exposure. Insufficient processes and controls exist to produce timely, accurate, and reliable collateral evaluations, resulting in unwarranted collateral risk exposure or noncompliance with regulations or guidelines.

Asset Rating Definitions	
1	Sound assets with strong asset quality, credit administration, and risk management practices. Identified weaknesses are minor in nature and risk exposure is modest in relation to capital protection and management abilities. Asset quality is of minimal supervisory concern.
2	Satisfactory asset quality with only moderate levels of risk commensurate with capital protection and management's abilities. Credit administration and risk management practices are adequate. The level and severity of classification and other weaknesses warrant limited supervisory attention.
3	Weak asset quality, credit administration, or risk management practices in relation to capital protection and management abilities. Weaknesses may range from moderate to severe. Trends may indicate deterioration in asset quality or an increase in risk exposure. The level and severity of classified assets, credit administration weaknesses, or other risk management deficiencies may require an elevated level of supervisory concern.

4	Deficient asset quality, credit administration, or risk management practices. The levels of high risk and adverse assets are significant and inadequately controlled, subjecting the institution to potential losses that, if left unchecked, may threaten its viability.
5	Critically deficient asset quality, credit administration, or risk management practices. These practices subject the institution to losses and present an imminent threat to the institution's viability.

Management			
Qualitative Factors	**Risk Management**		
	Strong	**Satisfactory**	**Weak**
Direction & Control of Operations	The board actively engages in strategic and operational planning, monitors institution condition and performance for all major operational areas, and monitors compliance with policies, laws, and regulations. Board committees are used effectively. Board reporting processes are highly effective in communicating key information to the board. The board and management corrective action processes achieve timely and effective resolution to audit, review, and examination findings. Operating philosophies, organizational structure, and practices evidence a strong internal control environment. Internal controls are not overly affected by a dominant influence, concentration of authority, or external factors. The board's internal control policy, as required by FCA Regulation 618.8430, provides strong direction in establishing effective control over, and accountability for, operations, programs, and resources. The board has retained a highly competent CEO and clearly defined the CEO's duties, responsibilities, and performance expectations. Processes for developing, maintaining, and implementing board policy are effective and ensure all significant areas of operations and statutes and regulations are addressed and	The board participates in strategic and operational planning, and monitors institution condition, performance, and compliance with policies, laws, and regulations. Board committees are generally used effectively. Board reporting processes are effective in communicating key information to the board. The board and management corrective action processes achieve resolution to audit, review, and examination findings. Operating philosophies, organizational structure, and practices contribute to an adequate internal control environment. Internal controls are not significantly affected by, or susceptible to, a dominant influence or external factors. The board's internal control policy, as required by FCA Regulation 618.8430, provides adequate direction in establishing control over, and accountability for, operations, programs, and resources. The board has retained a competent CEO and defined the CEO's duties, responsibilities, and performance expectations. Processes for developing, maintaining, and implementing board policy are generally effective and ensure all major areas of operations and statutes and regulations are addressed	The board is not sufficiently involved in strategic and operational planning, or does not monitor important aspects of operational performance, or compliance with policies, laws, and regulations. The board committee structure is ineffective. Board reporting processes are not effective in communicating key information to the board The board and management do not have an effective process in place to correct identified weaknesses from audits, reviews, or examinations. Operating philosophies, organizational structure, or practices do not result in an adequate internal control environment. Internal controls are affected by, or are susceptible to, a dominant influence or external factors. The board has not established an adequate internal control policy, or the policy does not include the minimum areas required by FCA Regulation 618.8430. The board has not retained a competent CEO or clearly defined the CEO's duties, responsibilities, or performance expectations. Processes for developing, maintaining, and implementing board policy are inadequate and do not ensure guidance covers all significant areas of operations or areas required by

	communicated to staff. Executive management is effective in conducting day-to-day operations. Management and the board effectively identify and control risks and threats to the institution's reputation, earnings, or capital. Enterprise risk management, model risk management, third-party risk management, and IT governance programs are sound and effectively contribute to overall risk management efforts. The institution effectively adheres to cooperative principles, such as member ownership, control, and benefit. Member/owner capital is effectively deployed to generate reasonable returns on equity while maintaining a sound, long-term source of credit.	and communicated to staff. Executive management adequately conducts day-to-day operations. Management and the board adequately identify and control risks and threats to the institution's reputation, earnings, or capital. Enterprise risk management, model risk management, third-party risk management, and IT governance programs are generally satisfactory and contribute to the overall risk management efforts. The institution adequately adheres to cooperative principles, such as member ownership, control, and benefit. Member/owner capital is adequately deployed to generate reasonable returns on equity while maintaining a sound, long-term source of credit.	statutes or regulations, or is not communicated to staff. Executive management does not adequately conduct day-to-day operations. Management and the board do not adequately manage risks and threats to the institution's reputation, earnings, or capital. Enterprise risk management, model risk management, third-party risk management, and IT governance programs are unsatisfactory and do not contribute to managing risks. The institution does not adequately adhere to cooperative principles, such as member ownership, control, or benefit. Member/owner capital is not efficiently deployed or adequately maintained to ensure a sound, long-term source of credit.
Business Strategy & Planning	The institution has clearly defined and communicated a sound and effective business strategy that ensures long-term viability and success. Management anticipates and responds well to changes of a market, technological, or regulatory nature that impact operations or the institution's reputation in the marketplace. The planning process and related documents are dynamic and include a thorough assessment of the institution's operating environment, internal strengths and weaknesses, external opportunities and threats, and risk exposures. Plans comply with FCA Regulations and thoroughly address providing products and services to all creditworthy and eligible customers. Management was successful in accomplishing past goals and is well-disciplined in business decision-making. The institution is on track to achieve current goals.	The institution has an adequate business strategy, although the strategy may not be clearly defined or communicated. Management adequately responds to changes of a market, technological, or regulatory nature that impact operations or the institution's reputation in the marketplace. The planning process is adequate and includes a review of internal and external factors likely to affect the institution during the planning period. Plans comply with FCA Regulations and adequately address providing products and services to all creditworthy and eligible customers. Management has a reasonable record in accomplishing past goals and making business decisions. The institution is reasonably on track to achieve current goals.	The institution does not have a sound business strategy that ensures long-term viability or success. Management does not take timely or appropriate actions in response to changes of a market, technological, or regulatory nature that impact operations or the institution's reputation. The planning process is inadequate and fails to identify significant factors that are likely to affect the institution during the planning period. The board has not adopted adequate operational, strategic, or capital plans as required by FCA Regulations. Plans do not sufficiently address providing products and services to all creditworthy and eligible customers. Management was not successful in accomplishing past goals. Deficiencies in decision-making or risk recognition hinder the ability to effectively implement plans. Achievement of current goals is doubtful.

	Strategic risk is low. All potential risks and problems are proactively identified, measured, monitored, and controlled.	Strategic risk is moderate. Significant risks and potential problems are identified, measured, monitored, and controlled.	Strategic risk is high. Significant risks or potential problems are not effectively identified, measured, monitored, and controlled.
Audit & Review Programs	The audit/review program is highly effective and proactive in conducting an independent, comprehensive, and ongoing assessment of risk and related internal controls for all significant areas of operations. The audit plan is appropriate and comprehensive. The Audit Committee fully complies with requirements of FCA Regulation 620.30. The committee actively engages in overseeing the audit/review function and plans and ensures management's system of internal controls is effective. Audit related policies and procedures are fully developed and implemented. The internal audit structure promotes independence and objectivity. Audit staff are highly knowledgeable and qualified. Audit reports are effective in communicating audit progress and results. Audit and reviews are fully effective and reliable. Findings and weaknesses from audits and reviews are addressed timely and effectively.	The audit/review program is effective and proactive in conducting an independent assessment of risk and related internal controls for most significant areas of operations. The audit plan is appropriate but may not address minor areas. The Audit Committee complies with requirements of FCA Regulation 620.30. The committee provides adequate oversight of the audit/review function and management's system of internal controls. Audit related policies and procedures cover most audit aspects and are generally implemented. The internal audit structure promotes independence and objectivity. Audit staff are knowledgeable and qualified. Audit reports are generally effective in communicating audit progress and results. Audit and reviews are generally effective and reliable. Findings and weaknesses from audits and reviews are generally addressed timely and effectively.	The audit/review program does not conduct an adequate or independent assessment of risk or develop an appropriate audit plan which leads to significant risk not being addressed or identified. Risk assessments and audit plans do not address material areas. The Audit Committee does not comply with FCA Regulation 620.30 or does not provide adequate oversight of the audit/review function and management's system of internal controls. Audit related policies and procedures are absent or are not implemented. The internal audit structure does not promote independence and objectivity. Audit/review activities and findings may be unduly influenced by management. Audit staff lack the necessary knowledge or qualifications. Audit reports are not effective in communicating audit progress and results. Audit and reviews are not effective and reliable. Findings and weaknesses from audits and reviews are not addressed timely or effectively.
Human Capital Management	Human Capital and Affirmative Action plans are effective, in compliance with regulations, and achieving favorable results. The board has a clearly defined succession plan that addresses the institution's executive management needs and mitigates risks. Management succession plans for key officers are clearly defined and serve to	Human Capital and Affirmative Action plans are adequate, in compliance with regulations, and achieving satisfactory results. The board has a succession plan that identifies strategies for replacing the CEO. Management has adequately addressed succession for most of the organization's key executive officers.	Human Capital or Affirmative Action plans are not adequate, in compliance with regulations, or achieving satisfactory results. The board has no succession plans for replacing the CEO. Management has not adequately addressed succession for key executive officers.

	enhance staff development. Compensation programs are effectively managed, promote accomplishment of business objectives, and fully comply with statutes and regulations. The Compensation Committee fully complies with requirements of FCA Regulation 620.31 and actively engages in overseeing compensation programs. Staff has the appropriate skills, education, experience, and training needed to effectively carry out responsibilities with minimal risk of error. Operations are not materially affected by employee turnover.	Compensation programs are adequately managed, generally consistent with business objectives, and in compliance with statutes and regulations. The Compensation Committee complies with requirements of FCA Regulation 620.31 and provides adequate oversight of compensation programs. Staff has skills and training compatible with the complexity of operations. Unplanned employee turnover may be moderate but does not significantly affect operations.	Compensation programs are not appropriately managed, are inconsistent with business objectives, or are not in compliance with statutes and regulations. The Compensation Committee does not comply with requirements of FCA Regulation 620.31 or does not provide adequate oversight of compensation programs. Management has not provided for adequate staff skills or training. High levels of unplanned employee turnover may adversely affect operations.
Mission Compliance	The institution maintains strong programs to furnish sound and constructive credit and services to all creditworthy and eligible potential customers in its territory, consistent with its GSE mission. The institution maintains a strong YBS program and is fully engaged and effective in serving this market. The institution uses all available authorities and actively coordinates with other entities to serve this market and mitigate the attendant risks. The institution effectively uses mission-related investment authorities and relationships with other entities to facilitate the flow of funds to agriculture and rural areas. The institution actively uses guarantee programs provided by the USDA and Federal and State agencies.	The institution maintains satisfactory programs to furnish sound and constructive credit and services to all creditworthy and eligible potential customers in its territory, consistent with its GSE mission. The institution maintains a satisfactory YBS program that complies with FCA Regulations. The institution demonstrates a good faith effort in implementing its YBS program and generally meets its YBS goals. The institution makes some use of mission-related investment authorities or relationships with other entities to facilitate the flow of funds to agriculture and rural areas. The institution uses guarantee programs provided by other agencies.	The institution's programs to furnish sound and constructive credit and services to all creditworthy and eligible potential customers in its territory are undefined, with limited or no board direction. The institution does not maintain an adequate YBS program. The program does not comply with FCA Regulations or is not adequately implemented. Demographic data shows that the institution is not adequately servicing its market. The institution does not adequately use mission-related investment authorities or relationships with other entities to facilitate the flow of funds to agriculture and rural areas. The institution does not effectively use guarantee programs provided by other agencies.
Business Continuity	The institution has a strong enterprise-wide business continuity program to continue, resume, and recover business processes when operations are interrupted unexpectedly. The program considers all business operations, personnel, technology, and resources that are critical for continuing the entire organization, not just the information technology department.	The institution has a satisfactory enterprise-wide business continuity program to continue, resume, and recover business processes when operations are interrupted unexpectedly. The program considers most of the business operations, personnel, technology, and resources that are critical for continuing the entire organization, but minor enhancements may be necessary.	The institution does not have an adequate enterprise-wide business continuity program to continue, resume, and recover business processes when operations are interrupted unexpectedly. The institution has not identified the business operations, personnel, technology, or resources that are critical for continuing the entire organization.

	The board and management have established and maintain effective business continuity risk assessment, planning, training, testing, and maintenance processes.	The board and management have established and maintain reasonable business continuity risk assessment, planning, training, testing, and maintenance processes.	The board and management have not established or maintained adequate business continuity risk assessment, planning, training, testing, or maintenance processes.
Information Technology & Security	The board and management maintain a sound IT governance framework, consisting of the leadership, organizational structures, and risk management that ensure technology sustains and supports the organization's business objectives. Policies, procedures, and operating processes promote a sound and controlled technology environment (i.e., people, processes, and technology). Effective internal controls that govern IT security, confidentiality, integrity, change control, and systems availability are in place and operating as intended. The volume and complexity of products, services, and transactions expose the institution to limited information security and IT operational risk. When functioning as a service provider either to itself or other entities, the institution delivers strong IT services and support. The institution maintains strong systems development, acquisition, implementation, and change management policies, procedures, processes, and controls for all IT systems that support critical business functions (applies to service providers or institutions that complete these types of activities themselves). Logical and physical security controls are sound, closely monitored, and functioning effectively. A formal written data security policy and	The board and management maintain a satisfactory IT governance framework, even though practices may not be fully integrated. Leadership, organizational structures, and risk management generally ensure technology sustains and supports the organization's business objectives. Policies, procedures, and operating processes support and evidence a satisfactory and reasonably controlled technology environment. Effective internal controls that govern IT security, confidentiality, integrity, change control, and systems availability are generally in place and operating as intended. The volume and complexity of products, services, and transactions may expose the institution to moderate information security and IT operational risk. When functioning as a service provider either to itself or other entities, the institution delivers satisfactory IT services and support. The institution maintains satisfactory systems development, acquisition, implementation, and change management policies, procedures, processes, and controls for all IT systems that support critical business functions. Logical and physical security controls and monitoring are satisfactory, and any deficiencies are minor. A written data security policy is in	The board and management have not established a clear IT governance framework, or demonstrated insufficient leadership, organizational structures, and risk management for ensuring technology sustains and supports the organization's business objectives. As a result, significant problems may arise that could disrupt operations or cause significant losses. Policies, procedures, and operating processes are insufficient to support an effective technology environment. Internal controls that govern IT security, confidentiality, integrity, change control, and systems availability are not in place, not designed adequately, or not operating as intended. The volume or complexity of products, services, or transactions may expose the institution to significant information security and IT operational risk. When functioning as a service provider either to itself or other entities, the institution does not deliver satisfactory IT services or support. The institution has unsatisfactory systems development, acquisition, implementation, or change management policies, procedures, processes, or controls for IT systems that support critical business functions. Logical and physical security controls and monitoring exhibit significant weaknesses. Data security policies are not adequate or are not strictly

	awareness program is communicated and enforced throughout the organization. Security incidents and weaknesses are identified and corrected quickly. IT operational controls such as problem and incident management, job scheduling and monitoring, network operations, performance monitoring, data backup, and environmental controls that support system availability are in place and operating effectively. Cybersecurity threats and vulnerabilities are proactively monitored, reported, and mitigated to minimize operational risks. This includes routine reporting on cybersecurity threats and operational posture.	place but may need improvement to ensure its adequacy. The policy is generally enforced and communicated throughout the organization, e.g., through a security awareness program. Security incidents and weaknesses are identified and resolved timely. IT operational controls such as problem and incident management, job scheduling and monitoring, network operations, performance monitoring, data backup, and environmental controls that support system availability are generally in place and operating effectively. Cybersecurity threats and vulnerabilities are adequately monitored, reported, and mitigated to minimize operational risks. This includes ad hoc reporting on cybersecurity threats.	enforced and communicated throughout the organization. Security incidents and weaknesses are not resolved in a timely manner. IT operational controls such as problem and incident management, job scheduling and monitoring, network operations, performance monitoring, data backup, and environmental controls that support system availability are not in place, not adequately designed, or not operating as intended. Significant risks to system performance and availability may impact daily business operations. Cybersecurity threats and vulnerabilities are not adequately monitored, reported, and mitigated to minimize operational risks. As a result, operational risks are elevated and exposure to cybersecurity threats are elevated.
Director Elections & Qualifications	The board election process is effective and complies with FCA regulations, with strong controls to ensure elections are conducted in an impartial manner. The board is highly qualified and uses self-evaluations, director training, and outside or other appointed directors to build needed skills. Controls are robust and ensure eligibility and subsequent employment restrictions for board members are followed and comply with FCA regulations.	The board election process is adequate and complies with FCA regulations, with sufficient controls to ensure elections are conducted in an impartial manner. The board is qualified and uses self-evaluations, director training, and outside or other appointed directors to build skills. Controls are sufficient to ensure eligibility and subsequent employment restrictions for board members are followed and comply with FCA regulations.	The board election process and related controls are inadequate. The conduct of employees, directors, or agents does not ensure impartial elections or compliance with FCA regulations. The board has significant weaknesses in the skills needed to meet its fiduciary responsibilities and has not taken sufficient action to build skills. Board members do not meet eligibility requirements in FCA regulations. Controls are insufficient to ensure eligibility and subsequent employment restrictions for board members are followed.
Standards of Conduct, Whistleblower, & Criminal Referral	The board has established an effective corporate culture, policies, controls, and reporting processes to ensure compliance	Policies and controls are adequate to ensure compliance with standards of conduct regulations and reasonably	Policies and controls to ensure compliance with standards of conduct regulations are ineffective or do not exist. The

	with standards of conduct regulations and a high level of ethical behavior, thereby mitigating exposure to reputation risk. An effective whistleblower program is in place that provides anonymous and confidential methods for internal and external sources to provide complaints or tips on suspicious activity. An effective criminal referral program is in place with policies and procedures that comply with FCA regulations and sufficient training and testing of the program.	mitigate exposure to reputation risk. An adequate whistleblower program is in place that provides anonymous and confidential methods for internal and external sources to provide complaints or tips on suspicious activity. An adequate criminal referral program is in place with policies and procedures that comply with FCA regulations and sufficient training and testing of the program.	board or staff has engaged in conduct that is prohibited by FCA Regulations or threatens the institution's reputation. A whistleblower program does not exist or it is ineffective. Anonymous and confidential methods for internal and external sources to provide complaints or tips on suspicious activity are not available or the complaints or tips are not appropriately addressed. Criminal referral policies and procedures do not comply with FCA regulations. Criminal referral activity is not reported as required. Training and testing of the program is not completed.
Federal Lending Regulations	The institution is in substantial compliance with federal lending laws and regulations and maintains strong internal controls to ensure ongoing compliance. New or revised regulations are proactively addressed. Compliance risk is low and effectively managed.	The institution generally complies with federal lending laws and regulations and maintains adequate internal controls to ensure ongoing compliance. While compliance controls may be informal, compliance with new or revised regulations is adequately addressed. Compliance risk is low to moderate and adequately managed.	The institution is not in compliance with federal lending laws or regulations. Internal controls to ensure compliance are not effective. The board and management have not taken adequate action to ensure compliance with new or revised regulations. Compliance risk is high.
Borrower Rights	The institution is in substantial compliance with borrower rights laws and regulations and maintains strong internal controls to ensure ongoing compliance. New or revised regulations are proactively addressed. Compliance risk is low and effectively managed.	The institution generally complies with borrower rights laws and regulations and maintains adequate internal controls to ensure ongoing compliance. While compliance controls may be informal, compliance with new or revised regulations is adequately addressed. Compliance risk is low to moderate and adequately managed.	The institution is not in compliance with borrower rights laws or regulations. Internal controls to ensure compliance are not effective. The board and management have not taken adequate action to ensure compliance with new or revised regulations. Compliance risk is high.
Financial & Shareholder Reporting	Reporting to shareholders and FCA is comprehensive, accurate, not misleading, and complies with regulations. Internal controls over financial reporting (ICFR) are effective, resulting in full compliance with regulatory reporting requirements. ICFR programs are documented and independently tested in accordance with System guidance and sound business practices.	Reporting to shareholders and FCA is complete, accurate, not misleading, and complies with regulations. Internal controls over financial reporting are adequate, resulting in only limited exceptions to regulatory reporting requirements. ICFR programs are documented and independently tested with some minor exceptions to System guidance and sound business practices.	Reporting to shareholders and FCA is incomplete, inaccurate, misleading, or doesn't comply with regulations. Internal controls over financial reporting are inadequate, resulting in noncompliance with regulatory reporting requirements. ICFR programs are not fully documented and independently tested in accordance with System guidance and sound business practices resulting in concerns over the accuracy of

			financial reporting.

Management Rating Definitions	
1	The board of director's and management's performance is highly effective. Risk management practices are strong. All significant risks are consistently and effectively identified, measured, monitored, and controlled. Management and the board have demonstrated the ability to promptly and successfully address existing and potential risks.
2	The board of director's and management's performance is satisfactory. Risk management practices are sufficient. Minor weaknesses may exist but are not material to the safety and soundness of the institution. In general, significant risks and problems are effectively identified, measured, monitored, and controlled.
3	The board of director's or management's performance needs improvement. Risk management practices are weak. The capabilities of management or the board of directors may be insufficient. Problems and significant risks may be inadequately identified, measured, monitored, or controlled.
4	The board of director's or management's performance is deficient. Risk management practices are inadequate. The level of problems and risk exposure is excessive. Problems and significant risks are inadequately identified, monitored, or controlled and require immediate action to preserve the soundness of the institution.
5	The board of director's or management's performance is critically deficient. The board of directors and management have not demonstrated the ability to correct problems and implement appropriate risk management practices. Significant risks are inadequately identified, measured, monitored, or controlled and now threaten the continued viability of the institution.

Earnings

Quantitative Factors	**Benchmarks**		
	1 Rating	**2 Rating**	**3+ Rating**
Return on Assets (preceding 12 months)	**> 1.5%**	**≥ 1%**	**< 1%**
Net Interest Margin (preceding 12 months)	**> 2.5%**	**≥ 2%**	**< 2%**
Efficiency Ratio (preceding 12 months)	**< 45%**	**≤ 65%**	**> 65%**

Other Statistics Considered:

Net Income (YTD)
Return on Risk Weighted Assets (preceding 12 months)
Operating Expenses (YTD)
Loanable Funds/Earning Assets
Provision for Credit Losses – Loans (YTD)
Provision for Credit Losses – Debt Securities (YTD)
Return on Assets (YTD annualized)
Return on Equity (YTD annualized)
Operating Expenses/Average Gross Loan Items (YTD annualized)
Average Spread (YTD annualized)
Provision for Losses on Off-Balance Sheet Exposures (YTD)

Qualitative Factors	**Risk Quantity**		
	Low Risk	**Moderate Risk**	**High Risk**
Earnings Adequacy	Earnings generally meet the 1-Rating benchmarks. Current and projected earnings demonstrate a sustained level of strong performance and are sufficient in relation to capitalization needs. Composition and quality of net income is high, with stable net interest income and financially related service income. Earnings are from recurring sources and sustainable considering loan portfolio risk, composition, likely changes in external factors, and recent or planned changes in asset pricing.	Earnings meet the 2-Rating benchmarks. Current and projected earnings are adequate in relation to capitalization needs, with minimal threats. Composition and quality of net income is satisfactory and is not overly reliant on nonrecurring sources or sources outside management's control. Earnings are not exposed to excessive loan portfolio risk, changes in external factors, or recent or planned changes in asset pricing.	Earnings are at or below the 3-Rating benchmarks. Earnings trends may be erratic and reliant on non-recurring sources of income, or earnings may be insufficient to meet capitalization needs. Net income is overly reliant on uncertain or nonrecurring sources. Earnings are not stable or sustainable. Earnings have declined or are expected to decline due to loan portfolio risk, weaknesses in composition, changes in external factors, or recent or planned changes in asset pricing.

	The overall level of credit, counterparty, interest rate, liquidity, operations, strategic, reputation, and compliance risk is low and presents a minimal threat to earnings.	The overall level of credit, counterparty, interest rate, liquidity, operations, strategic, reputation, and compliance risk is moderate, but is adequately managed and not expected to have a material impact on earnings.	The overall level of credit, counterparty, interest rate, liquidity, operations, strategic, reputation, or compliance risk is high and has materially impacted or presents a significant threat to earnings.
Qualitative Factors	**Risk Management**		
	Strong	**Satisfactory**	**Weak**
Earnings Management	Earnings philosophies demonstrate discipline and sound judgment. Loan pricing practices are effective and meet earnings needs (see below). The institution proactively identifies risk and manages its impact on earnings. Balance sheet composition is actively managed to minimize non-earning assets and to facilitate attaining earnings goals. Financial planning and budgeting are sound and include well-defined and effective strategies for maintaining strong earnings. Earnings targets are reasonable and appropriate for the level of risk, growth, and business needs of the institution. Financial performance in relation to plans is periodically reviewed and variances are addressed. Operating expenses are well managed. Loans are priced to maximize earnings, with appropriate consideration of risk. Analysis of market rates is thorough and provides sufficient information for management decision-making. In-depth monitoring of loan pricing effectiveness is completed.	Earnings philosophies demonstrate sufficient judgment. Loan pricing practices are adequate and meet earnings needs (see below). The institution adequately identifies risk and manages its impact on earnings. Balance sheet composition is adequately managed to maintain non-earning assets at reasonable levels. Financial planning and budgeting are adequate, and business plan earnings targets are reasonable. Actual results are compared with projections and significant variances are addressed. Operating expenses are adequately managed. Loans are priced to market. Competitive analyses are completed. The institution prices loans based on risk and other pertinent factors, including market rates. Management conducts some internal monitoring of loan pricing effectiveness.	Earnings philosophies are not effective in achieving a sufficient performance level. The portfolio may not be priced according to risk and other factors (see below). Risk and the impact on earnings are inadequately managed. Balance sheet composition is inadequately managed and includes excessive non-earning assets. Financial planning is inadequate, and projections may not include sufficient support or detail. Business plan earnings targets are inadequate or not achieved as projected. Actual operating results may not be compared with projections. Operating expense rates may be excessive. Loan pricing does not adequately consider risk or market rates. Loan pricing practices are not effectively monitored.

Earnings Rating Definitions	
1	Earnings are strong and include a sufficient buffer to support operations and maintain adequate capital and allowance levels after consideration is given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings.
2	Earnings are satisfactory and sufficient to support operations and maintain adequate capital and allowance levels after consideration is given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings. Earnings that are relatively static, or even experiencing a slight decline, may receive a 2-rating, provided the institution's level of earnings is adequate.

3	Earnings need to be improved. Earnings may not fully support operations or provide for the accretion of capital and allowance levels in relation to the institution's overall condition, growth, and other factors affecting the quality, quantity, and trend of earnings.
4	Earnings are deficient and insufficient to support operations or maintain appropriate capital and allowance levels. Institutions so rated may be characterized by erratic fluctuations in net income or net interest margin, the development of significant negative trends, nominal or unsustainable earnings, intermittent losses, or a substantive drop in earnings from the previous years.
5	Earnings are critically deficient. The institution is experiencing losses that represent a distinct threat to its viability through the erosion of capital.

Liquidity

Quantitative Factors	**Benchmarks**		
	1 Rating	**2 Rating**	**3+ Rating**
Accrual Assets/Direct Loan	**> 115%**	**≥ 105%**	**< 105%**
Acceptable & Special Mention Assets/Direct Loan	**> 110%**	**≥ 100%**	**< 100%**
Acceptable Assets/Direct Loan	**> 105%**	**≥ 95%**	**< 95%**

Other Statistics Considered:

Direct Loan (Associations Only)
Days Liquidity Coverage (Banks Only)
Loanable Funds
Investments (excluding investments in Farm Credit institutions)

Qualitative Factors	**Risk Quantity**		
	Low Risk	**Moderate Risk**	**High Risk**
Liquidity Risk	Liquidity is sufficient to meet demands, e.g., debt payments, loan demand, litigation, near-term capital expenditures, operating expenses, and any dividends or stock retirements to be paid in cash. Ample uninterrupted liquid funds are available on favorable terms through normal or customary sources of funding. The quantity and quality of collateral supporting the primary source of funding are strong. The overall level of credit, interest rate, operations, strategic, reputation, or compliance risk is low and does not present a material threat to liquidity. For associations, the institution is in compliance with all requirements of its General Financing Agreement and is receiving funds at the lowest rate. The primary funding bank is financially stable and has strong liquidity and access to markets without penalties.	Liquidity is adequate to meet demands, e.g., debt payments, loan demand, litigation, near-term capital expenditures, operating expenses, and any dividends or stock retirements to be paid in cash. Adequate uninterrupted liquid funds are available on acceptable terms through normal or customary sources of funding. The quantity and quality of collateral supporting the primary source of funding are satisfactory. The overall level of credit, interest rate, operations, strategic, reputation, or compliance risk is moderate, but does not present a material threat to liquidity. For associations, the institution is in compliance with all requirements of its General Financing Agreement. The primary funding bank has adequate access to markets without penalties.	Liquidity is insufficient to meet demands, e.g., debt payments, loan demand, litigation, near-term capital expenditures, operating expenses, and any dividends or stock retirements to be paid in cash. Inadequate liquid funds are available through normal or customary sources of funding or are subject to significant penalties or adverse terms. The quantity and quality of collateral supporting the primary source of funding are weak. The overall level of credit, interest rate, operations, strategic, reputation, or compliance risk is high and presents a material threat to liquidity. For associations, the institution is in noncompliance with one or more requirements of its General Financing Agreement. Funding penalties or risk-based premiums are imposed on the association. The primary funding bank is financially unstable and the bank's continued access to markets without penalties is threatened.

	For banks, access to funding through the capital markets is readily available under favorable costs and terms. The quantity and quality of the liquidity reserve and liquidity buffer provide an ample secondary source of liquidity to protect against adversity that disrupts the primary source of funding. The bank's statutory collateral margin is strong. Market, credit, and liquidity risks in reserve assets do not present a threat to the adequacy of the liquidity reserve or the statutory collateral margin.	For banks, access to funding through the capital markets is readily available under acceptable costs and terms. The quantity and quality of the liquidity reserve and liquidity buffer provide an adequate secondary source of liquidity to protect against adversity that disrupts the primary source of funding. The bank's statutory collateral margin is adequate. Market, credit, and liquidity risks in reserve assets present a moderate threat to the adequacy of the liquidity reserve or the statutory collateral margin.	For banks, access to funding through the capital markets is threatened or may be unavailable at reasonable costs and terms. The quantity and quality of the liquidity reserve and liquidity buffer provide an insufficient secondary source of liquidity to protect against adversity that disrupts the primary source of funding. The bank's statutory collateral margin is insufficient. Market, credit, and liquidity risks in reserve assets present a material threat to the adequacy of the liquidity reserve or the statutory collateral margin.
Qualitative Factors	**Risk Management**		
	Strong	**Satisfactory**	**Weak**
Liquidity Management	For associations, internal controls and monitoring processes thoroughly address liquidity risk and compliance with GFA requirements. The board is kept well-informed of the institution's liquidity risk and GFA compliance. The funding bank's condition is well understood so threats to liquidity can be managed. Contingency plans are implemented as needed. For banks, management proactively incorporates all key aspects of liquidity risk into its risk management process and anticipates and responds promptly to changing market conditions. Liquidity planning is fully integrated with strategic planning, budgeting, and financial management processes. A comprehensive contingency funding plan that includes stress testing is fully integrated into overall risk management processes and will enable the institution to respond to potential crisis situations in a timely and effective manner.	For associations, internal controls and monitoring processes adequately address liquidity risk and compliance with GFA requirements. The board is kept apprised of the institution's liquidity risk and GFA compliance, including the funding bank's condition. Contingency plans are considered. For banks, management reasonably incorporates most key aspects of liquidity risk into its overall risk management process. Liquidity planning is integrated with the strategic planning, budgeting, and financial management processes. Management realistically assesses the institution's funding markets and has a satisfactory contingency funding plan, which includes some stress testing, to manage liquidity risk and prepare for potential crisis situations.	For associations, internal controls and processes do not sufficiently address liquidity risk or GFA compliance. Reporting to the board is deficient regarding the institution's liquidity position, GFA compliance, or funding bank's condition. Contingency plans are not addressed. For banks, management does not satisfactorily address key aspects of liquidity risk. Management is not implementing timely or appropriate actions in response to changes in market conditions. Liquidity planning is not sufficiently integrated with the strategic planning, budgeting, and financial management processes. Management has not realistically assessed the institution's access to funding. The contingency planning process and liquidity stress testing is deficient, inhibiting the ability to respond effectively to potential liquidity crises.

Liquidity Rating Definitions	
1	Liquidity levels and funds management practices are strong. The institution has reliable access to funds on reasonable terms to meet present and anticipated liquidity needs. For banks, secondary sources of liquidity exist to provide funding, if needed. The collateral position is strong.
2	Liquidity levels and funds management practices are satisfactory. The institution has access to funds on acceptable terms to meet present and anticipated liquidity needs. Modest weaknesses may exist in funds management practices. The collateral position is satisfactory.

3	Liquidity levels or funds management practices need improvement. The institution may lack access to funds on reasonable terms or may have weaknesses in funds management practices. For banks, secondary sources of liquidity may be insufficient. Weaknesses may exist in the collateral position.
4	Liquidity levels or funds management practices are deficient. The institution may not have or be able to obtain sufficient liquidity on reasonable terms to meet liquidity needs.
5	Liquidity levels or funds management practices are critically deficient such that the continued viability of the institution is threatened. The institution requires immediate financial assistance to meet maturing obligations or other liquidity needs.

Sensitivity			
Qualitative Factors	**Risk Quantity**		
	Low Risk	**Moderate Risk**	**High Risk**
Interest Rate Risk (IRR)	IRR exposure is limited, stable, and well within the institution's risk-bearing capacity. IRR does not expose earnings or capital to significant risk. The repricing, terms, and options on assets are matched to the funding (or to the funding bank's transfer rates). Any mismatches do not pose a risk to earnings or capital. Equity is allocated to assets in a manner that balances and minimizes risks to both earnings and capital.	IRR exposure is acceptable, reasonably stable, and within the institution's risk-bearing capacity. IRR may expose earnings or capital to moderate but acceptable risk. The repricing, terms, and options on assets are generally matched to the funding (or to the funding bank's transfer rates). Mismatches pose moderate but acceptable risk to earnings or capital. Equity is allocated to assets in a manner that maintains risks to both earnings and capital at an acceptable level.	IRR exposure is significant, unstable, or exceeds the institution's risk-bearing capacity. IRR exposes earnings or capital to significant risk. The repricing, terms, and options on assets are inadequately matched to the funding (or to the funding bank's transfer rates). Mismatches pose a significant threat to earnings or capital. Equity is concentrated in funding assets in certain time buckets, resulting in excessive risk to earnings or capital.
Qualitative Factors	**Risk Management**		
	Strong	**Satisfactory**	**Weak**
Interest Rate Risk Management	IRR management is effective. Management fully understands the nature and impact of IRR exposures and establishes effective strategies to protect the institution against these risk exposures. Policies and procedures are comprehensive, commensurate with the institution's complexity and risk profile, and provide effective control of IRR exposures. Appropriate risk limits are established and well-defined for all significant IRR exposures. IRR measurement models and processes are commensurate with the institution's complexity and accurately measure risks from all significant IRR sources.	IRR management is adequate. Management generally understands the nature and impact of the most significant IRR exposures, but may overlook some sources and their potential impact. Weaknesses do not materially increase IRR exposure. Policies and procedures are adequate in relation to the institution's risk profile and contain appropriate risk limits for material IRR exposures. IRR measurement models and processes are adequate and provide a reasonable approximation of the most significant IRR exposures.	Significant weaknesses exist in IRR management that have the potential of materially increasing IRR exposure. Management does not fully understand material IRR exposures and has not established effective strategies to protect against them. Policies and procedures are inadequate in relation to the institution's risk profile and do not establish sufficient risk limits to protect against IRR exposure. IRR measurement models and processes are inadequate and do not accurately measure risks from significant IRR sources.

	Assumptions and data input are documented and independently validated. Reporting is comprehensive, timely, and sufficient for the board to monitor IRR exposures, providing for informed decision making.	Assumptions and data input are accurate and validated. Weaknesses do not materially impact management decisions. Reporting is timely and adequate, providing the board a reasonable basis for informed decision making.	Assumptions or data input may not be supported or validated. Reporting is insufficient for the board to understand and monitor IRR exposures, making it difficult to make informed decisions.
Derivatives	Financial derivatives are effectively used to manage and reduce balance sheet risks, shield against capital and earnings volatility, or achieve other appropriate purposes. Credit and market risks from derivatives are minimal and do not pose a material threat to capital or earnings. Derivatives are integrated into and are consistent with the institution's risk-management strategy. Policies, risk limits, procedures, internal controls, and risk management and measurement systems are commensurate with the unique complexities and use of derivatives. Reporting is comprehensive and sufficient to fully understand the unique complexities and accompanying risks in derivatives and the extent to which derivatives are accomplishing intended purposes.	Financial derivatives are adequately used to manage balance sheet risks, shield against capital and earnings volatility, or achieve other purposes. Credit and market risks from derivatives are moderate, but do not pose a material threat to capital or earnings. Derivatives are generally consistent with the institution's risk-management strategy. Policies, risk limits, procedures, internal controls, and risk management and measurement systems are adequate to control risks in derivatives. Reporting is adequate and generally sufficient to understand the unique complexities and accompanying risks in derivatives and the extent to which derivatives are accomplishing intended purposes.	Financial derivatives pose significant risks to the institution's capital or earnings. Derivatives are inconsistent with the institution's risk-management strategy and may be speculative or exacerbate balance sheet risks. Policies, risk limits, procedures, internal controls, and risk management and measurement systems are insufficient to measure and control risks. Reporting is insufficient to monitor and understand the unique complexities and accompanying risks in derivatives or determine if derivatives are accomplishing intended purposes.

Sensitivity Rating Definitions	
1	IRR is well controlled and there is minimal potential that earnings performance or capital position will be adversely affected. Risk management practices are strong for the size, complexity, and IRR profile of the institution. The level of earnings and capital provide substantial support for the degree of IRR taken.
2	IRR is adequately controlled and there is only moderate potential that earnings performance or capital position will be adversely affected. Risk management practices are satisfactory for the size, complexity, and IRR profile of the institution. The level of earnings and capital provide adequate support for the degree of IRR taken.
3	The control of IRR sensitivity needs improvement or there is significant potential that earnings performance or capital position will be adversely affected. Risk management practices need to be improved given the size, complexity, and IRR profile of the institution. The level of earnings and capital may not adequately support the degree of IRR taken.
4	The control of IRR is unacceptable or there is high potential that earnings performance or capital position will be adversely affected. Risk management practices are deficient for the size, complexity, and IRR profile of the institution. The level of earnings and capital provide inadequate support for the amount of IRR taken.
5	The control of IRR is unacceptable or the level of IRR taken by the institution is an imminent threat to its viability. Risk management practices are inadequate for the size, complexity, and IRR profile of the institution.