FIRS Rating Guide – Supplement 4

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
Adverse Assets/Risk Funds	**< 25%**	**≤ 75%**	**> 75%**
The sum of all assets classified Substandard, Doubtful, or Loss plus other property owned, divided by risk funds. Risk funds are defined as permanent capital plus the allowance for losses on loans.			
Criticized Assets/Risk Funds	**< 60%**	**≤ 125%**	**> 125%**
The sum of all assets classified OAEM, Substandard, Doubtful, or Loss plus other property owned, divided by risk funds. Risk funds are defined as permanent capital plus the allowance for losses on loans.			
Permanent Capital Ratio	**> 15%**	**≥ 10%**	**< 10%**
Permanent capital ratio is computed in accordance with FCA Regulation 12 CFR §615.5206.			
Total Surplus Ratio	**> 12%**	**≥ 10%**	**< 10%**
Total Surplus as defined in FCA Regulation 12 CFR §615.5301(i) divided by the risk-adjusted assets in accordance with FCA regulation 12 CFR 615.5330.			
Core Surplus Ratio	**> 9%**	**≥ 5%**	**< 5%**
Core Surplus as defined in FCA regulation 12 CFR §615.5301(b) divided by the risk adjusted assets in accordance with FCA regulation 12 CFR §615.5330.			

Other Statistics Considered:

Total Capital – Total assets less total liabilities.

Permanent Capital – The dollar amount of permanent capital is defined in FCA Regulation 12 CFR § 615.5201 and adjusted in accordance with FCA Regulation 12 CFR § 615.5207. Unlike the permanent capital ratio calculation, which utilizes 3-month average daily balances, the amount of permanent capital should be calculated as of a point in time.

Total Surplus – The total dollar amount of total surplus as determined in accordance with 12 CFR 615.5301(i). The amount is based on outstanding balances and not on daily averages.

Core Surplus – The total dollar amount of core surplus as determined in accordance with 12 CFR 615.5301(b). The amount is based on outstanding balances and not on daily averages.

Total Capital/Total Assets – Total capital (defined above) divided by total assets as defined by Generally Accepted Accounting Principles.

Core Surplus/Total Assets – Core surplus (defined above) divided by total assets as defined by Generally Accepted Accounting Principles.

Sustainable Growth Rate (SGR) – Return on Equity (ROE) x Earnings Retention Rate, which is ROE x (1-(Cash Dividends & Patronage Distributions/Net Income)). The SGR is effectively a growth break-even point. The SGR is the approximate rate at which an institution can grow given its earnings and cash dividend and patronage distribution policy without issuing additional external equity capital or increasing financial leverage. The ratio assumes the only source of new capital is retained earnings. The SGR can be compared to growth in total assets or growth in risk-adjusted assets. Comparisons to total assets growth are appropriate when evaluating the potential impact of growth on financial leverage. Comparisons to risk-adjusted assets growth are appropriate when evaluating the potential impact of growth on regulatory capital ratios. The SGR does not capture the impact of capital stock issuance/retirement or distributions of allocated surplus.

Cash Dividends & Patronage Paid – Prior 12 Months – Cash dividends on stock and patronage paid to borrowers during the prior 12 months.

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 quality is strong and is appropriate for the expected demands on capital, including payment of dividends, retirement of stock or surplus, asset growth, or earnings declines. Unallocated retained earnings and other high quality capital components enhance capital stability and provide adequate shareholder protection. 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. Unallocated retained earnings or other readily-available capitalization alternatives are sufficient to capitalize asset growth and maintain sound capital levels.	Capital levels meet the 2-Rating benchmarks, with threats to capital at a manageable level. Trends are generally stable or deteriorating moderately. The institution is not excessively reliant on lower quality or unstable sources of capital, or sources outside of management's control. 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. Asset growth poses a moderate threat to the institution's capacity to maintain sound capital levels.	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 unsatisfactory. The institution is excessively reliant on lower quality sources of capital. Capital position is not stable and may be adversely impacted by payment of dividends, retirement of stock or surplus, 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 high relative to capital. Risk exposures are significant and not effectively managed. Risks from counterparties and non-traditional activities may be excessive. Inability to capitalize asset growth poses a significant threat to capital adequacy.

Qualitative Factors	Risk Management		
	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 evaluate capital adequacy and establish minimum capital standards and	Management adequately monitors and manages capital. The capital plan addresses the minimum areas required by FCA Regulations and adequately supports minimum capital standards and optimum capital targets. Management processes, data, and analyses to evaluate capital adequacy, including stress testing, are sufficient and generally commensurate with institution risks.	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. Information systems may not provide sufficient data for management's analysis of capital adequacy, or such analysis is not sufficient relative to institution risks.

	optimum capital targets. Patronage refund and surplus/stock retirement 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.	 Patronage refund and surplus/stock retirement programs are adequately managed and do not significantly threaten capital adequacy. Policies, procedures, and internal controls adequately identify and control threats to capital.	 Patronage refund or surplus/stock retirement 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/Risk Funds	**< 20%**	**≤ 50%**	**> 50%**
The sum of all assets classified Substandard, Doubtful, or Loss plus other property owned, divided by risk funds. Risk funds are defined as permanent capital plus the allowance for losses on loans.			
Criticized Assets/Risk Funds	**< 50%**	**≤100%**	**> 100%**
The sum of all assets classified OAEM, Substandard, Doubtful, or Loss plus other property owned, divided by risk funds. Risk funds are defined as permanent capital plus the allowance for losses on loans.			
Assets Past Due > 30 Days/Total Classified Assets	**< 2%**	**≤ 5%**	**> 5%**
The outstanding principal balance and accrued interest on assets delinquent greater than 30 days divided by total classified assets. Total classified assets equals the sum of all assets classified Acceptable, OAEM, Substandard, Doubtful, or Loss.			
Nonaccrual Assets/Total Classified Assets	**< 1.5%**	**≤ 4%**	**> 4%**
Total assets in nonaccrual status (including cash basis) divided by total classified assets. Total classified assets equals the sum of all assets classified Acceptable, OAEM, Substandard, Doubtful, or Loss.			
OAEM Classified Assets/Total Classified Assets	**< 5%**	**≤ 10%**	**> 10%**
The sum of all assets classified Special Mention divided by total classified assets. Total classified assets equals the sum of all assets classified Acceptable, OAEM, Substandard, Doubtful, or Loss.			
Adversely Classified Assets/Total Classified Assets	**< 5%**	**≤ 10%**	**> 10%**
The sum of all assets classified Substandard, Doubtful, and Loss divided by total classified assets. Total classified assets equals the sum of all assets classified Acceptable, OAEM, Substandard, Doubtful, or Loss.			

Other Statistics Considered:

Total Assets – The total assets of the institution.

Gross Loan Items – Includes loans and leases, notes receivable from other Farm Credit System institutions, other notes receivable, accrual sales contracts, and related accrued interest.

Allowance for Loan Losses – The allowance for losses on loans, leases, notes receivable, and sales contracts, as determined in accordance with FAS No. 5, Accounting for Contingencies, FAS No. 114, Accounting by Creditors for Impairment of a Loan (as amended by FAS No. 118) and other applicable accounting guidance.

Net Loan Items – Gross loan items less the allowance for loan losses.

Total Asset Growth – Prior 12 Months – The percentage change in total assets over the preceding 12 months.

Allowance/Gross Loan Items – Allowance for loan losses divided by gross loan items.

Allowance/Nonaccrual Loans – Allowance for loan losses divided by nonaccrual loans.

Net Chargeoffs/Average Gross Loan Items – Year-to-date gross chargeoffs, less recoveries, divided by average gross loan items.

Top 10 Loan Commitments/Risk Funds – The aggregate amount of the institution's ten largest attributed loan commitments divided by risk funds. The ten largest loan commitments should be based on the total loan commitments to all borrowers attributed under FCA regulation 12 CFR §614.4359. Loan commitments include the total unpaid principal of all loans and lease balances outstanding and the total amount of undisbursed commitments. Risk funds are defined as permanent capital plus the allowance for losses on loans.

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. Composition and quality of new loans is sound. The growth rate is fully supported by capital resources and management abilities. There is limited exposure 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.	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. Composition and quality of new loans is satisfactory. The growth rate is reasonable considering capital resources and management abilities. Some exposure exists due to deteriorating economic, industry, competitive, regulatory, or technological factors. Credit-related losses do not seriously deplete current reserves or necessitate large provisions relative to earnings.	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 unsatisfactory or the growth rate exceeds capital resources or management abilities. Significant exposure exists due to deteriorating economic, industry, competitive, regulatory, or technological factors. 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 loss methodology is sound and provides strong support for the resulting allowance.	The allowance for loss methodology adequately supports the resulting allowance.	The allowance for 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. Reporting is comprehensive and sufficient to fully understand	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. Reporting is adequate and generally sufficient to	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. Reporting is insufficient to monitor risks or determine if

	the unique complexities and risks in investments and the extent to which investments are accomplishing intended purposes.	understand portfolio risks and the extent to which investments are accomplishing intended purposes.	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 are comprehensive, e.g., stress testing, migration analysis, collateral risk analysis, identifying and reporting the sources and quality of new volume, etc. 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 diversification and mission fulfillment.	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 diversification and mission fulfillment.	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 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. The internal credit review 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. While some improvement may be needed, the internal credit review 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. The internal credit review does not ensure reliable risk identification.
Credit Administration	Credit administration is sound. Strong policies, procedures, and practices result in effective credit administration.	Credit administration is satisfactory, with only minor weaknesses. Policies, procedures, and practices are satisfactory.	Credit administration weaknesses are significant. Policies, procedures, or practices are ineffective.

	Internal controls, including the internal credit review process, are fully effective and ensure credit administration weaknesses are identified and corrected timely.	Internal controls, including the internal credit review process, are generally effective, identify weaknesses, and ensure appropriate corrective actions.	Internal controls, including the internal credit review process, are not effective in identifying material weaknesses and ensuring timely corrective actions.
Managing Risk Concentrations	Risk concentrations are effectively identified and managed. Sound risk parameters are established in relation to capital and earnings, with comprehensive monitoring and reporting. Assets are not exposed to material concentrations of risk, and 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. Assets may be exposed to concentrations of risk; however, policies and processes 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. Assets are exposed to significant concentrations of risk, or policies and processes do not sufficiently mitigate or control material concentration risk exposure.
Loan Underwriting	The board's risk appetite and strategic objectives are sound. Underwriting processes result in a sound loan portfolio and are consistent with the board's objectives. Underwriting standards are comprehensive, closely monitored, and adjusted to ensure they remain sound. Underwriting exceptions are fully justified, tracked, and reported. Credit analysis and due diligence on individual loans is comprehensive, with effective loan structuring. Compensation programs and delegated lending authorities are fully consistent with loan underwriting expectations.	The board's risk appetite and strategic objectives are generally sound. Underwriting processes result in satisfactory loan quality and are generally consistent with the board's objectives. Underwriting standards are generally satisfactory and are monitored and adjusted to ensure they remain adequate. Underwriting exceptions are adequately tracked and reported. Credit analysis, due diligence, and structuring on individual loans is satisfactory. Compensation programs and delegated lending authorities are reasonably consistent with loan underwriting expectations.	The board's risk appetite and strategic objectives are not consistent with sound lending. Underwriting processes result in excessive portfolio risk or do not meet the board's objectives. Underwriting standards are incomplete, outdated or overly lax. Underwriting exceptions are not adequately controlled, tracked, or reported. Credit analysis, due diligence, or structuring on individual loans do not accurately identify or control risk. Compensation programs conflict with and inadequately support loan underwriting expectations. Delegated lending authorities are not commensurate with the institution's risk profile.
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.	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.	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.

<table>
<tr><td></td><td>Effective processes and controls exist to produce timely, accurate, and reliable collateral evaluations.</td><td>While some improvement may be warranted, adequate processes and controls exist to produce timely, accurate, and reliable collateral evaluations.</td><td>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.</td></tr>
<tr><th colspan="4">Asset Rating Definitions</th></tr>
<tr><td>1</td><td colspan="3">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.</td></tr>
<tr><td>2</td><td colspan="3">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.</td></tr>
<tr><td>3</td><td colspan="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.</td></tr>
<tr><td>4</td><td colspan="3">Deficient asset quality, credit administration, or risk management practices. The level 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.</td></tr>
<tr><td>5</td><td colspan="3">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.</td></tr>
</table>

Management			
Qualitative Factors	**Risk Management**		
	Strong	**Satisfactory**	**Weak**
Corporate Governance	The board actively engages in strategic and operational planning, monitors institution condition and performance for all major operational areas, monitors compliance with policies, laws, and regulations, and achieves corrective actions in response to audit, review, and examination findings.	The board participates in strategic and operational planning, and monitors institution condition and performance, compliance with policies, laws, and regulations, and management's actions to address audit, review, and examination findings.	The board is not sufficiently involved in strategic and operational planning, or does not monitor important aspects of operational performance, compliance with policies, laws, and regulations, or correction of identified weaknesses.
	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.	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.	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 is highly qualified and uses self assessments, director training, and outside directors to build needed skills. 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 qualified and uses self assessments, director training, and outside directors to build skills. The board election process is generally adequate and complies with FCA Regulations, with sufficient controls to ensure elections are conducted in an impartial manner.	The board has significant weaknesses in the skills needed to meet its fiduciary responsibilities, and has not taken sufficient action to build skills. 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 retained a highly competent CEO and clearly defined the CEO's duties, responsibilities, and performance expectations.	The board has retained a competent CEO and defined the CEO's duties, responsibilities, and performance expectations.	The board has not retained a competent CEO or clearly defined the CEO's duties, responsibilities, or performance expectations.
	Board policy guidance is effective, covers all significant areas of operations, complies with statutes and regulations, and is consistently followed.	Board policy guidance covers major areas of operations, complies with statutes and regulations, and is sufficiently followed.	Board policy guidance is inadequate, does not cover all significant areas of operations, does not address areas required by statutes or regulations, or is not consistently followed.
	Executive management is effective in conducting day-to-day operations. Management and the board effectively identify and control threats to the institution's reputation, earnings, or capital.	Executive management adequately conducts day-to-day operations. Risk to the institution's reputation, earnings, or capital from operational deficiencies/risk is adequately managed.	Executive management does not adequately conduct day-to-day operations. Risk to the institution's reputation, earnings, or capital from operational deficiencies/risk is inadequately managed.

	The institution has a sound IT governance framework, consisting of the leadership, organizational structures, and processes that ensure technology sustains and extends the organization's business objectives.	The institution has a satisfactory IT governance framework, even though practices may not be fully integrated. Leadership, organizational structures, and processes generally ensure technology sustains and extends the organization's business objectives.	The institution has not established a clear IT governance framework, or demonstrates insufficient leadership, organizational structures, and processes for ensuring technology sustains and extends the organization's business objectives.
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. Strategic risk is low. All potential risks and problems are proactively identified, measured, monitored, and controlled.	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. Strategic risk is moderate. Significant risks and potential problems are identified, measured, monitored, and controlled.	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 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, providing an independent, comprehensive, and ongoing assessment of risk and related internal controls for all material areas of operations. The board's internal control policy, as required by FCA	The audit/review program is adequate and provides an independent assessment of risk and related internal controls for significant areas of operations. The board's internal control policy, as required by FCA	The audit/review program is not adequate. Audit/review activities and findings may be unduly influenced by management or fail to address/identify significant risk. The board has not established an adequate internal control

	Regulation 618.8430, provides strong direction in establishing effective control over, and accountability for, operations, programs, and resources. 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.	Regulation 618.8430, provides adequate direction in establishing control over, and accountability for, operations, programs, and resources. 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.	policy or the policy does not include the minimum areas required by FCA Regulation 618.8430. 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.
Human Capital Management	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 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. The board has established an effective corporate culture, policies, controls, and reporting processes to ensure compliance with standards of conduct regulations and a high level of ethical behavior, thereby mitigating exposure to reputation risk.	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. 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. Policies and controls are adequate to ensure compliance with standards of conduct regulations and reasonably mitigate exposure to reputation risk.	The board has no succession plans for replacing the CEO. Management has not adequately addressed succession for key executive officers. 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. Policies and controls to ensure compliance with standards of conduct regulations are ineffective. The board or staff has engaged in conduct that is prohibited by FCA Regulations or threatens the institution's reputation.
Mission Compliance	The institution maintains strong programs to furnish sound and constructive credit and related services to all creditworthy and eligible potential customers in its territory, consistent with its	The institution maintains satisfactory programs to furnish sound and constructive credit and related services to all creditworthy and eligible potential customers in its	The institution's programs to furnish sound and constructive credit and related services to all creditworthy and eligible potential customers in its territory are undefined, with

	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 effectively adheres to cooperative principles, such as user ownership, control, and benefit. User/owner capital is effectively deployed to generate reasonable returns on equity while maintaining a sound, long-term source of credit.	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 adequately adheres to cooperative principles. User/owner capital is adequately deployed to generate reasonable returns on equity while maintaining a sound, long-term source of credit.	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. The institution does not adequately adhere to cooperative principles. User/owner capital is not efficiently deployed or adequately maintained to ensure a sound, long-term source of credit.
Business Continuity	The institution has a strong enterprise-wide business continuity program to continue, resume, and recover the institution's 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 board and management have established and maintain effective business continuity risk assessment, planning, training, testing, and maintenance processes.	The institution has a satisfactory enterprise-wide business continuity program to continue, resume, and recover the institution's 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 board and management have established and maintain reasonable business continuity risk assessment, planning, training, testing, and maintenance processes.	The institution does not have an adequate enterprise-wide business continuity program to continue, resume, and recover the institution's 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 not established or maintained adequate business continuity risk assessment, planning, training, testing, or maintenance processes.
Security	Logical and physical security controls are sound, closely monitored, and functioning effectively. A formal written data security policy and	Logical and physical security controls and monitoring are satisfactory, and any deficiencies are minor. A written data security policy is in	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.	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 within reasonable time frames.	enforced and communicated throughout the organization. Security incidents and weaknesses are not resolved in a timely manner.
IT Operations	Management routinely demonstrates the ability to identify and implement appropriate IT solutions while effectively managing risk. Policies, procedures, and operating processes promote a sound and controlled technology environment (i.e., people, processes, and technology). The volume and complexity of products, services, and transactions expose the institution to limited operational risk. When using third-party service providers, the institution manages the vendor relationship effectively and limits risk exposure. 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 (applies to service providers or institutions that complete these types of activities themselves).	Management demonstrates the ability to identify and implement appropriate IT solutions while managing risk. Policies, procedures, and operating processes support and evidence a satisfactory and reasonably controlled technology environment. The volume and complexity of products, services, and transactions may expose the institution to moderate operational risk. When using third-party service providers, the institution manages the vendor relationship adequately, but may have moderate risk exposure. 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.	Management does not successfully identify and implement appropriate IT solutions. 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. The volume or complexity of products, services, or transactions may expose the institution to significant operational risk. When using third-party service providers, the institution does not manage the vendor relationship adequately or is exposed to unwarranted 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.
Consumer Lending	The institution is in substantial compliance with consumer laws and regulations and maintains strong internal controls to ensure ongoing compliance. New or revised regulations are	The institution generally complies with consumer laws and regulations and maintains adequate internal controls to ensure ongoing compliance. While compliance management	The institution is not in compliance with consumer laws or regulations. Internal controls to ensure compliance are not effective. The board and management have not taken

	proactively addressed. Compliance risk is low and effectively managed.	control programs may be informal, compliance with new or revised regulations is adequately addressed. Compliance risk is low to moderate and adequately managed.	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 management control programs 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, and not misleading. Internal controls over financial reporting are effective, resulting in a high level of compliance with regulatory reporting requirements.	Reporting to shareholders and FCA is complete, accurate, and not misleading. Internal controls over financial reporting are adequate, resulting in only limited exceptions to regulatory reporting requirements.	Reporting to shareholders and FCA is incomplete, inaccurate, or misleading. Internal controls over financial reporting are inadequate, resulting in unsatisfactory compliance with regulatory reporting requirements.

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	**> 1.50%**	**≥ 1.00%**	**< 1.00%**
Net income for the preceding 12 months divided by the average assets.			
Net Interest Margin	**> 2.50%**	**≥ 2.00%**	**< 2.00%**
Net interest income (interest income less interest expense) for the preceding 12 months divided by the average earning assets.			
Efficiency Ratio	**< 45%**	**≤ 65%**	**> 65%**
Total noninterest expenses for the preceding 12 months divided by net interest income plus noninterest income (noninterest income includes patronage income received) for the preceding 12 months.			

Other Statistics Considered:

Net Income – Year-to-date net income.

Return on Assets – Year-to-date net income annualized divided by average year-to-date total assets.

Return on Risk-Adjusted Assets – Net income for the preceding 12 months divided by average risk-adjusted assets for the preceding 12 months as calculated in accordance with FCA Regulation 12 CFR § 615.5210. The risk-adjusted asset base is the total dollar amount of the institution's assets weighted on the basis of risk.

Return on Equity – Year-to-date net income annualized divided by average year-to-date total capital.

Total Operating Expenses – Year-to-date operating expenses include salaries and employee benefits, directors' compensation, occupancy and maintenance expenses for office space and equipment (including depreciation), expenditures for service performed by outside contractors and consultants, data processing equipment and related software, compensation paid to parties performing servicing actions on loans, the premium expense owed to the Farm Credit System Insurance Corporation (FCSIC), and certain other noninterest operating expense paid or incurred.

Operating Expenses/Average Total Loans – Year-to-date operating expenses annualized divided by average year-to-date total loans.

Loanable Funds/Earning Assets – Total earning assets less total interest-bearing liabilities divided by total earning assets.

Average Spread – The difference between an institution's interest rate on loans and loan-related assets and the interest rate on debt.

Provision for Loan Losses – Year-to-date provision for loan losses.

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	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	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

	considering loan portfolio risk, composition, likely changes in external factors, and 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 minimal exposure to earnings.	excessive loan portfolio risk, 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 moderate, but is adequately managed and not expected to have a material impact on earnings.	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, 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 Loans	**> 115%**	**≥ 105%**	**< 105%**
Accrual assets divided by the association's notes payable and accrued interest payable to its affiliated bank (excludes accounts payable).			
Acceptable & OAEM Assets/Direct Loans	**> 110%**	**≥ 100%**	**< 100%**
Assets classified Acceptable and OAEM divided by the association's notes payable and accrued interest payable to its affiliated bank (excludes accounts payable).			
Acceptable Assets/Direct Loans	**> 105%**	**≥ 95%**	**< 95%**
Assets classified Acceptable divided by the association's notes payable and accrued interest payable to its affiliated bank (excludes accounts payable).			

Other Statistics Considered:

Direct Loan – The association's note payable outstanding (principal and interest payable).

Net Collateral Ratio – The bank's net collateral as defined by FCA regulation 12 CFR §615.5301(c) divided by total liabilities as defined by FCA regulation 12 CFR §615.5301(d).

Days Liquidity Coverage – The bank's number of days liquidity at quarter-end in accordance with §615.5134.

Loanable Funds –Loanable funds represent the difference between interest-earning assets (marketable investments, accrual loans and leases, cash-basis nonaccrual loans, accrual notes receivable, and accrual sales contracts) and interest-bearing liabilities (total notes payable, including notes to other FCS institutions, total FCS bonds, and other bonds).

Marketable Investments – All investments for which a secondary market exists, such as U.S. Treasury securities, U.S. Government agency and corporation obligations, State and local obligations, Federal funds sold, securities purchased under resale agreements, and bankers' acceptances of other financial 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.	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.	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 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. 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.	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. 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.	For associations, the institution is in noncompliance with one or more requirements of its General Financing Agreement. 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 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.
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. Secondary sources of liquidity also exist to provide funding, if needed. The net 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 net 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. Secondary sources of liquidity may not exist. Weaknesses may exist in the net 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	For associations, IRR is limited due to an effective funds transfer pricing process that transfers most sources of risk to the funding bank. IRR is largely limited to risk related to loanable funds and managing retail loan spreads. IRR that remains at the association is well within the association's risk-bearing capacity and does not expose capital or earnings to significant risk. For banks, exposure reflects minimal repricing, basis, yield curve, and options risk. Asset/liability and hedging positions used to manage IRR exposure are well correlated to underlying risks. No significant mismatches on longer-term positions exist. Interest rate movements will have minimal adverse impact on earnings and capital.	For associations, IRR is limited due to the existence of a funds transfer pricing process; however, lending programs and activities create some risk sources not transferred to the funding bank. Such IRR exposes capital or earnings to moderate risk. For banks, exposure reflects manageable repricing, basis, yield curve, and options risk. Asset/liability and hedging positions used to manage IRR exposure are somewhat correlated. Mismatches on longer-term positions are managed. Interest rate movements will not have a significant adverse impact on earnings and capital.	For associations, IRR in mismatch, basis, yield curve, or options risks exists from a variety of sources including funding, investment, and derivatives activities. Such IRR is not adequately managed and exposes capital or earnings to significant risk. For banks, exposure reflects significant repricing, basis, yield curve, or options risk. Asset/liability and hedging positions used to manage IRR exposure are poorly correlated. Significant mismatches on longer-term positions exist. Interest rate movements could have a significant adverse impact on earnings and 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. Assumptions and data input are	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. Assumptions and data input are	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 or data input may not be supported or validated.

	documented and independently validated. Reporting is comprehensive, timely, and sufficient for the board to monitor IRR exposures, providing for informed decision making.	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.	 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 overall 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 overall 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 is 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 overall 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, sophistication, and IRR accepted by 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, sophistication, and IRR accepted by 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, sophistication, and level of IRR accepted by 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, sophistication, and level of IRR accepted by 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, sophistication, and level of IRR accepted by the institution.