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 and other property owned.			
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 and other property owned.			
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
Quantity of Capital	Capital levels generally meet the 1-Rating benchmark with threats to capital managed to a minimal level and all capital ratios within Board goals.	Capital measures meet the 2-Rating benchmark with threats to capital at a manageable level. Trends are generally stable or deteriorating moderately.	Capital levels fall below the 3-Rating benchmark and may be deteriorating. Threats to capital are beginning to become significant and warrant supervisory attention.
Quality of Capital	The quality of capital is strong and is appropriate for the expected demands on capital, including permanent capital reallocations, asset growth, dividends, and stock retirement. Unallocated retained earnings and other high quality capital components enhance the stability of capital and provide adequate protection to shareholders.	The institution is not excessively reliant on unstable sources of capital or sources outside of management's control; e.g., borrower stock, stock investments in other FCS institutions.	The quality of capital is unsatisfactory. The institution is reliant on lower quality sources of capital. Capital position is not stable and may be adversely impacted by permanent capital reallocations, payment of dividends, and/or stock retirements, asset growth, earnings declines, or credit, interest rate, or other types of risk.
Risk Exposure to Capital	The overall level of credit, interest rate, liquidity, operations, strategic, reputation, and compliance risk is low relative to the institution's capital position. Risk exposure from counterparties and non-traditional activities is minimal. Threats to capital are appropriately identified and well managed.	The overall level of credit, interest rate, liquidity, operations, strategic, reputation, and compliance risk is moderate relative to the institution's capital position. 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 the institution's capital position. Risk exposures are significant and not effectively managed. Risks from counterparties and non-traditional activities may be excessive.
	Risk Management		
	Strong	**Satisfactory**	**Weak**
Capital Management	Management is proactive in monitoring and managing capital and potential threats to capital. The institution's capital adequacy plan complies with FCA Regulations and provides a sound basis for optimal capital levels. Effective policies, procedures, and internal controls establish a framework for maintaining capital adequacy and controlling risk.	Management adequately monitors and manages capital. The capital adequacy plan includes the minimum areas required by FCA Regulations. Policies, procedures, and internal controls adequately identify and control threats to capital.	Management's ability to monitor and manage capital is inadequate. Weaknesses exist in the capability of management to identify and address emerging capital needs. In addition, information systems may lack the capacity to provide data needed for capital management analyses.

Capital Rating Definitions	
1	Strong capital level relative to the institution's risk profile. Capital quality and management are strong.
2	Satisfactory capital level relative to the institution's risk profile. Capital quality and management are satisfactory.
3	Capital level is unsatisfactory and does not fully support the institution's risk profile. Improvement is needed, even if the capital level exceeds regulatory minimums.
4	Capital level is deficient and the viability of the institution may be threatened. Assistance from external sources may be required.
5	Capital level is critically deficient such that the institution's viability is threatened. Immediate assistance from external sources is required.

<table>
<tr><th colspan="4">Assets</th></tr>
<tr><th rowspan="2">Quantitative Factors</th><th colspan="3">Benchmarks</th></tr>
<tr><th>1 Rating</th><th>2 Rating</th><th>3+ Rating</th></tr>
<tr><td>Adverse Assets/Risk Funds</td><td>< 20%</td><td>≤ 50%</td><td>> 50%</td></tr>
<tr><td colspan="4">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 and other property owned.</td></tr>
<tr><td>Criticized Assets/Risk Funds</td><td>< 50%</td><td>≤100%</td><td>> 100%</td></tr>
<tr><td colspan="4">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 and other property owned.</td></tr>
<tr><td>Assets Past Due > 30 Days/Total Classified Assets</td><td>< 2%</td><td>≤ 5%</td><td>> 5%</td></tr>
<tr><td colspan="4">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.</td></tr>
<tr><td>Nonaccrual Assets/Total Classified Assets</td><td>< 1.5%</td><td>≤ 4%</td><td>> 4%</td></tr>
<tr><td colspan="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.</td></tr>
<tr><td>OAEM Classified Assets/Total Classified Assets</td><td>< 5%</td><td>≤ 10%</td><td>> 10%</td></tr>
<tr><td colspan="4">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.</td></tr>
<tr><td>Adversely Classified Assets/Total Classified Assets</td><td>< 5%</td><td>≤ 10%</td><td>> 10%</td></tr>
<tr><td colspan="4">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.</td></tr>
</table>

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 and other property owned.

Qualitative Factors	Risk Quantity		
	Low Risk	Moderate Risk	High Risk
Concentrations	Assets are not exposed to excessive concentrations of risk (e.g., commodity, borrowers with large loans, or counterparty), either on balance sheet or off. Risk exposures are actively monitored and controlled through effective stress testing, concentration limits, underwriting standards, and management reporting.	Assets may be exposed to concentrations of risk, but underwriting practices and internal control systems effectively manage risk exposure. Risk exposures are monitored and controlled through adequate concentration limits, underwriting standards, and management reporting.	Assets are exposed to significant concentrations of risk; internal control systems do not effectively manage risk exposure; or board policies do not ensure risk exposures are adequately monitored or controlled.
Asset Growth	The composition and quality of new loans and investments are sound; the rate of growth is consistent with capital resources and management abilities. Asset growth is effectively managed through diligent planning and effective risk management processes, internal controls, and management reporting systems. Growth objectives promote the institutions ability to diversify its portfolio and/or serve its territory and meet its mission.	The composition and quality of new loans and investments are satisfactory; the rate of growth is reasonable considering capital resources and management abilities. Asset growth is managed through reliable planning and adequate risk management processes, internal controls, and management reporting systems. Growth objectives consider the institutions ability to diversify its portfolio and/or serve its territory and meet its mission.	The composition and quality of new loans and investments are unsatisfactory or the rate of growth exceeds capital resources or management abilities. Asset growth is not adequately managed. Strategic and business plans, risk management processes, internal controls, or management reporting systems are materially deficient. The board is unable to maintain adequate oversight of asset growth or to adequately manage the impact of growth on the institution.
Credit Risk	The institution meets substantially all of the 1-Rating quantitative benchmark anchors and has low risk exposure from concentrations and asset growth. Asset quality trends are stable to positive and threats to loans and other assets are well managed. Current or prospective exposure to loss of earnings or capital is minimal. Limited sensitivity to deteriorating economic, industry, competitive, regulatory, and technological factors. Credit-related losses do not materially impact current reserves and result in modest provisions relative to earnings.	The institution meets substantially all of the 2-Rating quantitative benchmark anchors and has moderate risk exposure from concentrations and asset growth. Asset quality trends may be unstable or slightly adverse, but asset risk is appropriately managed. Current or prospective exposure to loss of earnings or capital does not materially impact financial condition. Some vulnerability may exist due to deteriorating economic, industry, competitive, regulatory, and technological factors. Credit-related losses do not seriously deplete current reserves or necessitate large provisions relative to earnings.	The institution meets a several of the 3-Rating quantitative benchmark anchors or may have high risk exposure from concentrations or asset growth. The prospects for increasing risk are substantial or risks may not have been adequately identified or managed. Current or prospective exposure to loss of earnings or capital is material. Significant vulnerability exists due to deteriorating economic, industry, competitive, regulatory, and technological factors. Credit-related losses may seriously deplete current reserves or necessitate large provisions relative to earnings.

	Risk Management		
	Strong	**Satisfactory**	**Weak**
Loan Portfolio Management	Management fully addresses all aspects of credit risk, and anticipates and responds well to changes in market conditions. Portfolio risk measurement and monitoring systems (e.g., stress testing, migration analysis) are comprehensive. Information systems and reporting processes timely identify risk. Underwriting standards are comprehensive, closely monitored, and adjusted as needed to ensure they remain sound. Underwriting exceptions are fully justified, tracked, and reported. Individual credit analyses are comprehensive.	Management addresses important aspects of credit risk and adequately responds to changes in market conditions. Portfolio risk measurement and monitoring systems are satisfactory. Information systems and reporting processes adequately disclose risk. Underwriting standards are generally satisfactory and are monitored and adjusted as needed to ensure they remain adequate. Underwriting exceptions are adequately tracked and reported. Individual credit analyses are satisfactory.	Management does not adequately address important aspects of credit risk, or anticipate or take timely and appropriate actions in response to changing market conditions. Portfolio risk measurement and monitoring systems are not of sufficient quality. Information systems and reporting processes are materially deficient. Underwriting standards are incomplete, outdated or overly lax and/or underwriting exceptions are not adequately controlled. Individual credit analyses do not accurately identify risk.
Internal Credit Review	The Internal Credit Review is effective. It provides early detection of potential problems, evaluates credit administration, and determines compliance with board policy, laws, and regulations. Risk is accurately identified. Credit classifications accurately reflect portfolio quality. The internal credit review is comprehensive, timely, and independent.	The Internal Credit Review is effective with modest weaknesses. It provides management and the board reliable information regarding the adequacy of credit administration and compliance issues. Risk identification is acceptable. Inaccurate credit classifications total less than 5 percent of volume examined. While some improvement may be needed, the Internal Credit Review is considered reliable.	The Internal Credit Review is ineffective. It does not evaluate or accurately report the adequacy of credit administration or detect noncompliance with board policy, laws, or regulations. Material weaknesses in risk identification are evident. Inaccurate credit classifications total greater than 5 percent of volume examined and corrective action by management is required. Serious weaknesses could include lack of independence, timeliness, or scope of review.
Credit Administration	Credit Administration is sound. There are no material weaknesses and due diligence on purchase loans is sound. The institution's internal controls ensure credit administration is evaluated, weaknesses are identified and corrective actions taken on a timely basis. Policies, procedures, and practices are strong and result in the effective credit administration practices. .	Credit Administration is satisfactory. Weaknesses are minor and due diligence on purchased loans are satisfactory. Internal controls are generally effective and identify weaknesses. Corrective actions are appropriate. Policies, procedures and practices are satisfactory.	Credit administration weaknesses are significant. There may be material weaknesses that are not identified and corrected on a timely basis. Controls are weak and allow for material deficiencies. Due diligence on purchased loans may be weak. Policies, procedures and practices are ineffective in credit administration practices.

Allowance Process	The allowance for loan loss methodology is sound and provides strong support for the allowance estimates.	The allowance for loan loss methodology provides adequate support for allowance estimates.	The allowance for loan loss methodology is flawed and/or provides insufficient coverage of risks present.
Investment Portfolio Management	Investment portfolio management is effective. Risk exposure is accurately identified and modest in relation to the level of investment complexity and management's ability. Reporting and control systems are reliable.	While some weaknesses may exist, investment portfolio management is adequate overall and does not result in unwarranted risk. Risk exposure is reliably identified and reported.	Investment portfolio management results in unwarranted credit or market risk and/or does not comply with regulations or guidelines.

Asset Rating Definitions	
1	Sound assets with strong asset quality, credit administration, and asset 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 asset management practices are adequate. The level and severity of classification and other weaknesses warrant limited supervisory attention.
3	Weak asset quality or credit administration 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, other weaknesses, and risks may require an elevated level of supervisory concern.
4	Deficient asset quality, credit administration, or asset management practices in relation to the size and complexity of the assets managed. The level of high risk and adverse assets are significant and inadequately controlled by management, and subject the institution to potential losses that, if left unchecked, may threaten its viability.
5	Critically deficient asset quality, credit administration, or asset management practices. These practices subject the institution to losses and present an imminent threat to the institutions viability.

Management			
Qualitative Factors	**Risk Management**		
	Strong	**Satisfactory**	**Weak**
Corporate Governance	The board is actively engaged in strategic and operational planning; policy formulation and approval; monitoring the condition and performance of the institution for all major operational areas; monitoring compliance with policies, laws, and regulations; and achieving corrective actions. The board is responsive to audit, review, and examination recommendations.	The board participates in strategic and operational planning; approves policies; monitors the condition and performance of the institution; monitors compliance with policies, laws, and regulations; and monitors management's actions to address corrective actions. The board adequately responds to audit, review, and examination recommendations.	The board is not sufficiently involved in strategic and operational planning and does not adequately monitor important aspects of operational performance, compliance, and/or correction of identified weaknesses. The board does not adequately respond to audit, review, or examination recommendations.
	The board is highly qualified. The board has the collective skill sets needed by the institution and this skill set is continually reassessed. The board uses director training, outside directors, or nomination of new directors to build needed skills. Committees are effectively used to carry out the board's fiduciary responsibilities.	The board is qualified and capable to meet its fiduciary responsibilities. The board has the collective skill set necessary to meet the institution's basic needs. Director training, outside directors, or nomination of new directors are used to build skills. Committees are used to carry out the board's fiduciary responsibilities.	The board has significant weaknesses in the skills needed to meet its fiduciary responsibilities, including the correction of significant weakness.
	The board election process is effective. Nominating committees are used to identify and nominate qualified candidates that will provide adequate representation on the board. The institution has implemented strong controls to ensure that the director elections are conducted in an impartial manner. Any potential reputation or strategic risk from this process is low.	The board election process is generally adequate and complies with FCA Regulations. Nominating committees identify and nominate qualified candidates. The director elections are conducted in an impartial manner and comply with regulatory requirements. Any potential reputation or strategic risk from this process is limited.	The board election process is inadequate and/or does not comply with FCA Regulations. Nominating committees do not comply with FCA Regulations. The conduct of employees, directors, or agents does not ensure impartial director elections or compliance with FCA Regulations. Weaknesses in the board's election process expose the institution to reputation and/or strategic risk.
	The board has retained a competent CEO and clearly defined the CEO's duties and responsibilities. Standards of performance and key result areas have been established in a job description and performance plan which ensures the CEO understands the board's performance expectations and is accountable for fulfilling those expectations.	The board has retained a competent CEO and defined the CEO's duties and responsibilities. CEO performance is measured against achievement of business plan goals and the CEO is held accountable for achieving those goals.	The board has not retained a competent CEO or clearly defined the CEO's duties or responsibilities. The board does not have a defined process to hold the CEO accountable for business performance or has not held the CEO accountable for poor performance.

	The board has a clearly defined succession plan that addresses the institution’s executive management needs and mitigates the risks associated with dependence on a single or group of executives. The board effectively administers a compensation program for its senior officers through a qualified and objective board committee. The compensation programs do not reward excessive risk-taking. The programs expose the institution to low reputation risk. Board policy guidance covers all significant aspects of the institution’s operations. Policies are effective, address all essential elements, and are consistently followed. Policies are reevaluated and revised as necessary to ensure intended objectives and goals are being accomplished. The board has established effective policies and controls to ensure compliance with standards of conduct regulations. The board adheres to and monitors compliance with standard of conduct policies and its conduct is beyond reproach. It establishes a corporate culture of high ethical behavior. The board’s policies, controls, and conduct mitigate the institution’s exposure to reputation risk.	The board has a succession plan that identifies the board’s strategies for replacing the CEO. The board administers a compensation program for its senior officers through a committee of the board. The institution’s compensation programs do not promote excessive risk-taking and do not expose the institution to reputation risk. Board policy guidance covers areas required by statute, regulations, and other areas of operations as needed. Policies address most essential elements, and are consistently followed. Policies are periodically reevaluated and revised to ensure intended objectives and goals are being accomplished. The board has established adequate policies and controls to ensure compliance with standards of conduct regulations. The board makes a good faith effort to comply with its standards of conduct policies. The board’s policies, controls, and conduct adequately mitigate the institution’s exposure to reputation risk.	The board has no succession plans for replacing the CEO. The compensation program for senior officers is not adequately administered by the board. The board has not established adequate committee oversight as required by FCA Regulations. Compensation programs have or may result in increased risk exposure and/or reputation risk. Board policy guidance does not cover all areas required by statute, regulations or key areas of operations. Policies are inadequate or are not consistently followed. Policies are outdated and not reevaluated and revised to ensure intended objectives and goals are being accomplished. The board has not established adequate policies and controls to ensure compliance with standards of conduct regulations and to manage reputation risk. The board has engaged in conduct that is prohibited by FCA Regulations or threatens the institution’s reputation.
Internal Controls	The institution has a preventive and detective control structure that results in systems, internal controls, audit, and contingency plans that are sound and ensure compliance with policies, procedures, laws, and regulations.	Adequate operating systems, internal controls, and audit coverage are evident. The institution’s overall level of compliance with policies, procedures, laws, and regulations is adequate.	Internal controls or audits are not effective. Management has not initiated adequate corrective action to address problems. Internal controls are inadequate to ensure compliance with policies, procedures, laws, and regulations.

	The board and management's operating philosophies and organizational structure promote 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 institution has an effective internal audit/review function that provides an independent, comprehensive, and ongoing assessment of risk and related internal controls. The board's audit committee provides effective oversight of the institution's internal audit/review function and management's system of internal controls. The audit committee reviews and approves audit and review plans that are focused on key risks and controls, and updated as conditions change and fully complies with all the requirements of FCA Regulation 620.30. The institution's internal controls and internal control environment effectively mitigate the institution's exposure to significant risks.	The board and management's operating philosophies and organizational structure provide 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 to the institution in establishing control over, and accountability for, operations, programs, and resources. The institution has an adequate internal audit/review function that provides an independent assessment of risk and related internal controls. The board's audit committee provides adequate oversight of the institution's internal audit/review function and management's system of internal controls. The audit committee complies with all of the requirements of FCA Regulation 620.30. The institution's internal controls and internal control environment adequately mitigate the institution's exposure to all significant risks.	The board and management's operating philosophies and organizational structure do not support 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 institution's internal audit/review function is inadequate or is seriously deficient. Internal audit/review activities and findings may be unduly influenced by management or fail to address/identify significant risk. The board's audit committee provides inadequate oversight of the institution's internal audit/review function and management's system of internal controls. The audit committee does not comply with FCA Regulation 620.30. The institution's internal controls and internal control environment do not adequately mitigate the institution's exposure to significant risks.
Operations Management	Executive management is effective in conducting the day-to-day operations of the institution. The capability and depth of management talent enhances strategic direction and organizational efficiency, and any weaknesses in operations are minor and quickly resolved.	Executive management adequately conducts day-to-day operations of the institution. Only moderate operational weaknesses are present and are adequately addressed within reasonable time frames.	Executive management does not adequately conducts day-to-day operations of the institution. Management lacks the ability or willingness to adequately address weaknesses, which may range from moderate to severe.

	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. Management succession plans for key officers are clearly defined and serve to enhance staff development. Staff has the appropriate skills, education, experience, and training needed to effectively carry out their responsibilities with minimal risk of error. The level of unplanned employee turnover is low and enhances the institution's operational efficiency and effectiveness. Information systems function effectively and information security is sound. The risk associated with the institution's reliance on service providers and business partners is low and effectively managed. The volume and complexity of products, services, and transactions exposes the institution to limited operational risk. Risk to the institution's reputation, earnings, or capital from operational deficiencies/risk is low and/or effectively managed. The institution does not regularly experience litigation or customer complaints.	Management adequately responds to changes of a market, technological, or regulatory nature that impact operations or the institution's reputation in the marketplace. Management succession has been adequately addressed for most of the organization's key executive officers. Staff has skills and training compatible with the complexity of products and operations. The level of unplanned employee turnover may be moderate, but does not significantly affect the institution's operational efficiency and effectiveness. Any deficiencies in information systems and/or security are minor. The risk associated with the institution's reliance on service providers and business partners is moderate and adequately managed. The volume and complexity of products, services, and transactions exposes the institution to moderate levels of operational risk. Risk to the institution's reputation, earnings, or capital from operational deficiencies/risk is moderate and/or adequately managed. The levels of litigation, losses, and/or customer complaints are manageable.	Management does take timely or appropriate actions in response to changes of a market, technological, or regulatory nature that impact operations or the institution's reputation. Management succession has not been adequately addressed. Management has not provided for adequate staff skills or training. High levels of unplanned employee turnover adversely affect the institution's ability to operate in a safe or sound manner, or in compliance with laws and regulations. Information systems at various levels exhibit significant weaknesses in function and/or security. The risk associated with the institution's reliance on service providers and business partners is high or inadequately managed. The volume and complexity of products, services, and transactions exposes the institution to significant levels of operational risk. Risk to the institution's reputation, earnings, or capital from operational deficiencies/risk is high or inadequately managed. This risk is reflected in significant litigation, large dollar losses, or a high volume of complaints.
Business Strategy and Planning	The institution has clearly defined and communicated a sound and effective business strategy that ensures the long-term viability and success of the institution. The planning process is highly effective and includes a thorough assessment of the institution's operating	The institution has an adequate business strategy, but the strategy may not be clearly defined or communicated. The planning process is adequate and includes a review of internal and external factors likely to affect the	The institution does not have a sound business strategy that ensures the institution's long-term viability or success. The planning process is inadequate and fails to identify significant factors that are likely to affect the

	environment, internal strengths and weaknesses, external opportunities and threats, and risk exposures. The planning process is dynamic and ongoing and results in effective strategic, operational, capital, and business continuity plans. Management has been successful in accomplishing past goals and is appropriately disciplined. The institution is on track to achieve current goals. Strategic risk is low.	institution during the planning period. The process results in an operational, strategic, and capital plan that complies with FCA Regulations. Management has a reasonable record in accomplishing past goals and decision making. The institution is reasonably on track to achieve current goals. Strategic risk is moderate.	institution during the planning period. The board of directors has not adopted an adequate operational, strategic, and capital plan as required by FCA Regulations. Management has been unsuccessful in accomplishing past goals. Deficiencies in decision-making and risk recognition hinder management's ability to effectively implement plans. Achievement of current goals is doubtful. Strategic risk is high.
Risk Management	All significant risks are effectively identified, measured, monitored, and controlled. The board and management proactively identify and mitigate risk from all sources, including credit, interest rate, operations, liquidity, compliance, strategic, reputation, and counterparty risk. Risk identification and measurement are accurate. Risk management systems (e.g. internal audit/review) are independent of risk-taking (e.g. loan making) activities. The internal audit/review function is strong. The institution has identified all significant counterparties. The financial condition of significant counterparties is also assessed to measure this potential risk to earnings and capital. The board's policies effectively address counterparty risk by limiting transactions based on their financial condition and the institution's risk-bearing capacity.	Significant risks and problems are identified, measured, monitored, and controlled. The board and management identify and mitigate risk from all significant sources, but some risks may not be identified and/or mitigated until they become well-defined. Risk identification and measurement have moderate weaknesses. Risk management systems are independent of risk-taking activities. The internal audit/review function is satisfactory. The institution has identified its significant counterparties and the potential risk to earnings and/or capital should they not perform. The board's policies adequately address counterparty risk by limiting transactions to counterparties based on their financial condition and the institution's risk-bearing capacity.	Significant risks and problems are not identified, measured, monitored, and controlled. The board and management have not, or are not capable of, identifying and mitigating significant risks threatening the institution. Risk identification and measurement processes are inaccurate or unreliable. Risk management systems are not independent of risk-taking activities. The internal audit/review function is ineffective or unreliable. The institution has not identified its significant counterparties and the potential risk to earnings and/or capital should they not perform. The board's policies do not address counterparty risk or include counterparty risk limits.
Mission Compliance	The institution maintains a strong program to furnish sound and constructive credit and related services to YBS farmers, ranchers, and	The institution maintains a satisfactory program to furnish sound and constructive credit and related services to YBS farmers,	The institution does not maintain an adequate YBS program. The program does not comply with FCA Regulations or the program

	producers or harvesters of aquatic products. The institution is fully engaged in serving this market and uses all available authorities, including credit enhancements. The institution actively coordinates with other entities to serve this market and mitigates the attendant risks. The institution effectively implements its YBS program and regularly meets or exceeds its YBS goals. The institution effectively makes use of 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.	ranchers, and producers or harvesters of aquatic products. The institution's YBS program 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 the USDA and Federal and State 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.	is not adequately implemented. Demographic data shows that the institution is not adequately servicing its market. The institution does not adequately use its lending or mission-related investment authorities or relationships with other entities to facilitate the flow of funds to agriculture and rural areas. The institution does not use guarantee programs provided by the USDA and Federal and State agencies. The institution does not adequately adhere to cooperative principles. User/owner capital is not efficiently deployed and/or adequately maintained to ensure a sound, long-term source of credit.
Compliance	The institution is in substantial compliance with all laws and regulations and maintains strong internal controls to ensure ongoing compliance. Statutory and regulatory compliance considerations are incorporated into product and systems development processes and new and/or revised regulations are proactively addressed. Compliance risk is low and effectively managed. The institution's reporting to shareholders and FCA is comprehensive, accurate, and not misleading. Internal controls over financial reporting are effective, which result in a high level of compliance with regulatory reporting requirements.	The institution is in generally complies with all laws and regulations and maintains adequate internal controls to ensure ongoing compliance. While compliance management control programs may be informal, compliance with new and/or revised regulations is adequately addressed. Compliance risk is low to moderate and adequately managed. The institution's reporting to shareholders and FCA is complete, accurate, and not misleading. Internal controls over financial reporting are adequate, which result in only limited exceptions with regulatory reporting requirements.	The institution is not in compliance with laws or regulations. Internal controls do not ensure compliance considerations are incorporated into product and systems development. The board and management have not taken adequate action to ensure compliance with new and/or revised regulations. Compliance risk is high. The institution's reporting to shareholders and FCA is incomplete, inaccurate, or misleading. Internal controls over financial reporting are inadequate, which result in unsatisfactory compliance with regulatory reporting.

Management Rating Definitions	
1	The board of director's and management's performance is strong. Risk management practices are strong relative to the institution's size, complexity, and risk profile. 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 relative to the institution's size, complexity, and risk profile. 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 given the nature of the institution's activities. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution. 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 considering the nature of the institution's activities. 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 and divided by average year-to-date total assets.

Return on Average Risk-Adjusted Assets – Year-to-date net income annualized and divided by average year-to-date risk-adjusted assets 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 and 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 and 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**
Quantity of Earnings	Earnings from operations meet 1-Rating benchmarks. Current and projected earnings demonstrate a sustained level of strong performance.	Earnings from operations meet 2-Rating benchmarks. Current and projected earnings are adequate with minimal threats.	Earnings from operations are below the 3-Rating benchmarks. Earnings trends may be inconsistent and reliant on non-recurring sources of income.
Quality of Earnings	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,	Composition and quality of net income is satisfactory. Institution is not overly reliant on nonrecurring sources or sources outside the control of management. Earnings are not exposed to excessive loan portfolio risk or changes	Institution 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,

	likely changes in external factors, and recent or planned changes in asset pricing.	in external factors, or recent or planned changes in asset pricing.	changes in external factors, or recent or planned changes in asset pricing.
Risk Exposure to Earnings	The overall level of credit, interest rate, liquidity, operations, strategic, reputation, and compliance risk is low and presents minimal exposure to earnings. The institution's reliance on counterparties is limited and does not present a material threat to earnings.	The overall level of credit, 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 institution's reliance on counterparties may present moderate risk to earnings, but this risk is adequately identified and managed.	The overall level of credit, interest rate, liquidity, operations, strategic, reputation, and compliance risk is high and presents a significant threat to earnings. Earnings are highly dependent on counterparties, whose ongoing performance are not assured. Earnings have been or are expected to be materially impacted by these risk exposures.
	Risk Management		
	Strong	**Satisfactory**	**Weak**
Earnings Management	Management and the board's earnings philosophies demonstrate discipline and sound judgment. Loan pricing practices are effective and meet the institution's earnings needs (see below). The institution proactively identifies risk and manages its impact on earnings. Management actively manages the composition of the balance sheet to minimize nonearning assets and to facilitate attaining earnings goals. The institution has a sound financial planning and budgeting process. Earnings targets are reasonable and appropriate to the level of risk, growth, and business needs of the institution. Management and the board periodically review financial performance in relation to plans. Significant budget variances receive appropriate consideration. Operating expense levels are well managed.	Management and the board's earnings philosophies demonstrate sufficient judgment. Loan pricing practices are adequate and meet the institution's earnings needs. The institution adequately identifies risk and manages its impact on earnings. The composition of the balance sheet is adequately managed to maintain nonearning assets at reasonable levels. The institution has an adequate financial planning and budgeting process. Business plan earnings targets are reasonable. Actual results are compared with projections. Operating expenses are adequately managed.	Management and the board's earnings philosophies are not effective in achieving a sufficient level of performance. The portfolio may not be priced according to risk and other factors. Risk and the impact on earnings are inadequately managed. The composition of the balance sheet is inadequately managed and includes excessive nonearning assets. The institution's financial planning is inadequate. Financial projections may not include sufficient support or detail. Business plan earnings targets are inadequate and/or not achieved as projected. Actual operating results may not be compared with projections. Operating expense rates are excessive.
Loan Pricing	Loans are priced at market to maximize earnings. Competitive analyses are thorough and provide sufficient information for management decision-making. Loans pricing includes appropriate factors for risk and other factors.	Loans are priced to market. Competitive analyses are completed. The institution prices loans based on risk and other pertinent factors. Management conducts some internal monitoring of loan pricing effectiveness.	The institution's loans are not priced to the market or with appropriate consideration of risk. Loan pricing practices are not effectively monitored by management or the board.

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 are adequate.
3	Earnings need to be improved. Earnings may not fully support operations and 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 and 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**
Sources (funding bank/other)	The bank providing the primary source of funding has strong liquidity and access to the markets without penalties. Where weaknesses exist, secondary sources have been identified and contingency plans established.	The primary source of liquidity is stable and positioned to provide continued funding under normal conditions. Contingency plans have been established as needed.	Conditions exist which threaten the stability of the institution's primary source of liquidity, and reasonable contingency plans have not been established.
GFA Compliance	The association complies with all requirements of its General Financing Agreement and is receiving funds at the lowest rate.	The association complies with all requirements of its General Financing Agreement.	The association does not comply with one or more requirements of its General Financing Agreement.
Collateral (quantity/quality)	The quantity and quality of collateral is strong.	The quantity and quality of collateral is satisfactory.	The quantity and quality of collateral is weak.
Liquidity Risk	Liquidity is adequate to meet demands with sufficient buffer to withstand adversity, e.g., debt payments, loan demand, litigation, near-term capital expenditures, operating expenses, and any	Liquidity is sufficient to meet demands, e.g., debt payments, loan demand, litigation, near-term capital expenditures, operating expenses, and any dividends and/or stock retirements to be	Liquidity is not sufficient to meet demands, e.g., debt payments, loan demand, litigation, near-term capital expenditures, operating expenses, and any dividends and/or stock retirements to

	dividends and/or stock retirements to be paid in cash. The institution is not vulnerable to funding difficulties should an adverse change in market conditions occur. Ample liquid funds are available on favorable terms through the normal or customary sources of funding, augmented by ample secondary sources of liquidity as appropriate.	paid in cash. The institution is not vulnerable to funding difficulties should a adverse change in market conditions occur. Earnings or capital exposure from the liquidity risk profile is manageable. The net collateral position, loanable funds, access to secondary sources of liquidity, and management of cash flows provide a satisfactory source and uninterrupted access for funding operations.	be paid in cash. The institution's liquidity profile makes it vulnerable to funding difficulties should a adverse change occur in market conditions. Weaknesses in the net collateral position, quality of assets pledged to support debt, or cash management is evident.
	Risk Management		
	Strong	**Satisfactory**	**Weak**
Liquidity Management	For associations, internal controls and monitoring processes address compliance with GFA requirements. The board is kept apprised of the institution's compliance with the GFA. The condition of the funding bank is well understood so that 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. Weaknesses are minor. Liquidity planning is fully integrated with strategic planning, budgeting, and financial management processes. A comprehensive contingency funding plan is fully integrated into overall risk management processes and will enable the institution to respond to potential crisis situations in a timely manner.	For associations, internal controls and monitoring processes address compliance with GFA requirements. The board is kept apprised of the institution's liquidity position, including the condition of the funding bank. Contingency plans are considered. For banks, management reasonably incorporates most of the key aspects of liquidity risk into its overall risk management process. Liquidity planning is integrated with the strategic planning, budgeting, and financial management processes. Information processes are adequate for the volume and complexity of activity. Management realistically assesses the institution's funding markets and has a satisfactory contingency funding plan to manage liquidity risk and is generally prepared to manage potential crisis situations.	For associations, internal controls and processes do not address GFA compliance. Management's reporting to the board is deficient. 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 is deficient, inhibiting management's ability to minimize liquidity problems.

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 and 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 and/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 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 the existence of an effective funds transfer pricing process that transfers most sources of risk to the funding bank. IRR is largely associated with management of the retail loan spreads. For banks, exposure reflects minimal repricing, basis, yield curve, and options risk. 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 the earnings and capital of the institution.	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. For banks, exposure reflects manageable repricing, basis, yield curve, and options risk. 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 the earnings and capital of the institution.	For associations, the IRR has unmanaged exposures to mismatch, basis, yield curve, and options risks arising from a variety of sources including funding, investment, and derivatives activities. For banks, exposure reflects significant repricing, basis, yield curve, or options risk. 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 the earnings and capital of the institution.
	Risk Management		
	Strong	**Satisfactory**	**Weak**
Interest Rate Risk Management	Management fully understands and addresses the scope, nature, and impact of IRR exposures. Management anticipates and quickly responds to changes in market conditions. The IRR management process is effective and proactive. Appropriate resources are devoted to IRR management. Lines of authority and responsibility are clearly defined. Interest rate risk is well-understood. IRR measurement provides insightful information, is accurate, and captures all IRR exposures. Discretionary risk positions are effectively measured and controlled. The design and supporting technology of risk measurement tools, including models, are appropriate for the size and complexity of activity. Assumptions, software logic, and data input	Management understands and addresses most aspects of IRR but overlooks some sources or potential impact. Management adequately responds to changes in market conditions. The IRR management process is adequate. Resources for managing IRR are generally adequate. Lines of authority and responsibility are defined. Knowledge of interest rate risk exists. IRR measurement provides adequate information, is generally accurate, and captures the material IRR exposures. Discretionary risk positions are properly measured and controlled. The design and supporting technology of risk measurement tools, including models, are adequate for the size and complexity of activity. Assumptions, software logic, and data input	Management does not adequately address the institution's IRR. Management does not take timely or appropriate actions in response to changes in market conditions. The IRR management process is deficient, given the size and complexity of on- and off-balance-sheet exposures. Resources are insufficient for IRR management. Lines of authority are not clearly defined. Knowledge of interest rate risk may be lacking. IRR measurement is overly simplistic for the size and complexity of the institution or significant deficiencies render reports unreliable. Discretionary risk positions are not adequately measured or controlled. The design and supporting technology of risk measurement tools, including models, are inappropriate for the size and complexity of activity. Risk measurement validation or testing is either

	are documented, and independently validated to ensure the measurement tools can accurately measure risks. Staff responsible for measuring exposures and monitoring risk limits is independent from staff executing risk-taking decisions. Reporting of IRR exposures is comprehensive, timely, and reliable, providing for informed decision making. Audits are used to effectively validate the adequacy of IRR management/measurement. IRR parameters are well defined, address all potential exposures, and effectively limit risk commensurate with the institution's financial condition. Limit structures provide clear parameters for risk to earnings and capital under normal and adverse scenarios. Policies and procedures are comprehensive, provide effective control of IRR exposure, and are commensurate with the complexity and risk profile of the institution.	are documented, and independently validated, but the measurement tools provide only a reasonable approximation of risks. Weaknesses do not materially impact management decisions. Staff responsible for measuring exposures and monitoring risk independent from staff executing decisions. Reporting of IRR exposures is timely and reliable, providing a reasonable basis for decision making. General or periodic audit coverage is provided over IRR management/measurement. IRR parameters are adequately defined, address the primary sources of risk, and are reasonable relative to the institution's financial condition. Limit structures are reasonable and sufficient to control the risk to earnings and capital under normal and adverse scenarios. Policies and procedures are adequate to control IRR exposure and provide reasonable coverage over the material sources of IRR.	not performed or seriously flawed. Risks are inaccurately measured, impairing the ability of management to make sound decisions. The potential impact to earnings or capital can be material. Staff responsible for measuring exposures and monitoring risk is not independent from staff executing decisions. Reporting of IRR exposures has significant weaknesses and does not provide an adequate basis for informed decision making. Audits are not sufficiently or effectively used to validate the IRR management/measurement. IRR parameters are poorly defined, omit material sources of risk, or are inappropriate relative to the institution's financial condition. Limit structures are not reasonable relative to earnings and capital under normal and adverse scenarios. Policies and procedures are deficient, do not adequately control IRR exposure, and/or are not commensurate with the institution's risk profile.

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 by the institution.
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 by the institution.
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 by the institution.
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 by the institution.
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.