Semi-Annual Report on Office of Examination Operations
June 11, 2020

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Sr. Financial Analyst
Office of Examination
OE Operations | Focus Areas

- Operating Plan Objectives
  - Risk Supervision and Examination Activities
  - Operational Efficiency and Effectiveness
  - Human Capital Update

- Summary
Risk Supervision & Examination Activities

FCS Institution Activities and Guidance
(through 2nd quarter FY 2020)

- Conducted onsite activities at all 4 funding banks, 45 associations (66%), and 2 other entities
- Issued 25 Reports of Examination and 7 Interim Activity Letters
  - Five institutions are currently under a higher level of supervisory oversight
- Communications and Guidance Activities
  - Internal/external communications
  - External meetings and conferences
  - Examination manual updates and revisions

System Profile as of 3/31/20

<table>
<thead>
<tr>
<th>72 Lending Institutions</th>
<th>FCS Institution Activities and Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Funding Banks</td>
<td>• Conducted onsite activities at all 4 funding banks, 45 associations (66%), and 2 other entities</td>
</tr>
<tr>
<td>68 Associations</td>
<td>• Issued 25 Reports of Examination and 7 Interim Activity Letters</td>
</tr>
<tr>
<td>Asset Size from $28B to $158B</td>
<td>• Five institutions are currently under a higher level of supervisory oversight</td>
</tr>
<tr>
<td>Asset Size from $42M to $31B</td>
<td>• Communications and Guidance Activities</td>
</tr>
</tbody>
</table>

$387.3 billion Total Assets

$292.6 billion Gross Loans

$1.4 billion YTD Earnings

Source: FCS Information Statement
Supervision & Examination Initiatives

2020 NOP Risk Topics and Strategies:

- **Credit | Lending Controls**
  - Assess institutions’ risk identification and lending controls
  - Continued focus on stressed sectors
  - Monitor real estate values, particularly in the Midwest

- **Internal Audit | Governing the Third Line of Defense**
  - Risk assessment of institutions’ internal audit programs
  - Evaluate board and audit committee engagement and oversight

- **Operational Risk | Cybersecurity and Emerging Threats**
  - Review institutions’ IT security controls against cybersecurity risks
Operational Efficiency & Effectiveness

▶ Examination tools | Ongoing technology initiatives
  ▪ EDGe and Management Reporting
  ▪ FCS Loan Database and Tools

▶ OE Budget results (Fiscal YTD thru 3/31/20)

FY 2020 OE Budget - $36.8M

<table>
<thead>
<tr>
<th>FTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Fiscal Yr.</td>
</tr>
<tr>
<td>Planned Fiscal Yr.</td>
</tr>
<tr>
<td>Under plan</td>
</tr>
</tbody>
</table>

Funds Used $16.8  45.6%
Funds Remaining $20.0  54.4%
Human Capital Update

- Hiring, developing, and retaining Associate Examiners
- Post-Commission training
- Staff Development Opportunities
- Staffing

### Total OE Staff

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Projected</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning FY 2020</td>
<td>184</td>
<td>172</td>
<td>(12)</td>
</tr>
<tr>
<td>Attrition</td>
<td>Retirements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hirings</td>
<td>16</td>
<td>17</td>
<td>1</td>
</tr>
<tr>
<td>Ending FY 2020</td>
<td>184</td>
<td>182</td>
<td>(2)</td>
</tr>
</tbody>
</table>

### Commissioned Examiners

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Projected</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning FY 2020</td>
<td>93</td>
<td>94</td>
<td>1</td>
</tr>
<tr>
<td>Attrition</td>
<td>Retirements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newly Commissioned</td>
<td>19</td>
<td>6</td>
<td>(13)</td>
</tr>
<tr>
<td>Ending FY 2020</td>
<td>105</td>
<td>97</td>
<td>(8)</td>
</tr>
</tbody>
</table>
Summary

- Maintained a strong onsite risk-based examination presence through the 1st half of FY 2020
- Current conditions have required a pronounced shift in examination approach, staff development, and recruiting
- Remain focused on ensuring OE has sufficient highly skilled staff to accomplish its mission
- On target to accomplish 2020 Operating Plan objectives and meet or exceed all Agency performance measures
Discussion

THANK YOU