Semi-Annual Report on Office of Examination Operations
June 9, 2022

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Director of Operations
Office of Examination
OE Operations Agenda Topics

- Operating Plan Objectives:
  - Risk Supervision and Examination Activities
    - FY 2022 National Oversight Plan (NOP)
  - Public Mission
  - Operational Efficiency and Effectiveness
  - Human Capital Update

- Summary
Risk Supervision & Examination Activities

FCS institution activities and guidance
(Fiscal Year-to-Date 3/31/2022)

- Conducted examination and/or oversight activities at all funding banks, all associations, and 8 other entities.

- Issued 31 reports of examination and 21 interim activity letters.
  - Three institutions were under a higher level of supervisory oversight.

- Issued communications and guidance.

Source: FCS Information Statement
Supervision & Examination Initiatives

2022 NOP Risk Topics and Strategies:

- **Cybersecurity in an Increasing Threat Environment**
  - Inventory critical information technology (IT) assets of System institutions and their counterparties.
  - Assess vulnerability management and cybersecurity incident response plans.
  - Review technology plans for selected institutions and identify and inventory major technology initiatives impacting critical financial systems.
  - Evaluate the adequacy of controls over ACH/wire transfer programs.
Supervision & Examination Initiatives

2022 NOP Risk Topics and Strategies:

▶ Loan Underwriting in a Period of Significant Volatility
  ▪ Assess new loan sources and quality by monitoring changes in RE values, reviewing Systemwide RE loan-to-value trends, and examining loan underwriting in portfolios with strong loan growth or significant cash grain concentrations.*
  ▪ Compare each institution’s LUS and risk rating criteria against System guidance and peer institutions.
  ▪ Identify portfolio segments and institutions most vulnerable to drought and water challenges and assess LPM practices to mitigate implications.

* OE revised this NOP strategy in the FY 2022 OE Operating Plan because of evolving risk conditions.
Public Mission

Young, Beginning, and Small Farmers (YBS) Programs and Strategies:

- Develop and implement phase one of the stand-alone YBS rating system in partnership with ODAE and other agency offices, aligning with the availability of the data from the new qualitative non-lending reporting.

- Develop a survey and repository for examiners to document an institution’s YBS lending best practices and summarize results.
Operational Efficiency & Effectiveness

- Examination tools | Ongoing technology initiatives
  - EDGe and management reporting
  - Data analytics and examination tools

- OE budget results (Fiscal year-to-date as of 3/31/2022)

FY 2022 OE Budget

<table>
<thead>
<tr>
<th>FTEs</th>
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</thead>
<tbody>
<tr>
<td>♦ Projected Full Year FTE's</td>
<td>181.1</td>
</tr>
<tr>
<td>♦ Budgeted Full Year FTE's</td>
<td>184.8</td>
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</tbody>
</table>

Budget Variance

(3.7)
Human Capital Update

- Hiring and developing Associate Examiners
- Development opportunities
- Post-commission training
- OE-All hybrid conference

### Total OE Staff*

<table>
<thead>
<tr>
<th>Total OE Staff*</th>
<th>Planned</th>
<th>Known prior to 5/31/2022</th>
<th>Variance</th>
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</thead>
<tbody>
<tr>
<td>Beginning FY 2022</td>
<td>184</td>
<td>183</td>
<td>(1)</td>
</tr>
<tr>
<td>Attrition</td>
<td>Retirements</td>
<td>(17)</td>
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<tr>
<td>Hirings</td>
<td>16</td>
<td>15</td>
<td>(1)</td>
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<tr>
<td>Ending FY 2022</td>
<td>183</td>
<td>172</td>
<td>(11)</td>
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</tbody>
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### Commissioned Examiners*

<table>
<thead>
<tr>
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<th>Planned</th>
<th>Known prior to 5/31/2022</th>
<th>Variance</th>
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<tr>
<td>Attrition</td>
<td>Retirements</td>
<td>(8)</td>
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<tr>
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<td>Newly Commissioned</td>
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<td>11</td>
<td>1</td>
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<tr>
<td>Ending FY 2022</td>
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<td>86</td>
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*All known hiring and attritions as of May 31, 2022.

1 Attrition includes two commissioned examiners moving into Senior Management.
Summary

- Continued effectively conducting oversight and examination activities through the 1st half of FY 2022.
- Conditions still require some modifications in examination approach and staff development.
- Remain focused on ensuring OE has sufficient highly skilled staff to accomplish its mission.
- On target to accomplish adjusted 2022 Operating Plan objectives.