

is likely to cause the respondent to be insolvent or otherwise prejudice the interests of consumers before the completion of the adjudication proceeding. A temporary cease-and-desist order may require the respondent to cease and desist from any violation or practice specified in the notice of charges and to take affirmative action to prevent or remedy such insolvency or other condition pending completion of the proceedings initiated by the issuance of a notice of charges.

(b) *Incomplete or inaccurate records.* When a notice of charges specifies, on the basis of particular facts and circumstances, that the books and records of a respondent are so incomplete or inaccurate that the Bureau is unable to determine the financial condition of the respondent or the details or purpose of any transaction or transactions that may have a material effect on the financial condition of the respondent, then the Director or his or her designee may issue a temporary order requiring:

(1) The cessation of any activity or practice which gave rise, whether in whole or in part, to the incomplete or inaccurate state of the books or records; or

(2) Affirmative action to restore such books or records to a complete and accurate state, until the completion of the adjudication proceeding.

(c) *Content, scope and form of order.* Every temporary cease-and-desist order accompanying a notice of charges shall describe:

(1) The basis for its issuance, including the alleged violations and the harm that is likely to result without the issuance of an order; and

(2) The act or acts the respondent is to take or refrain from taking.

(d) *Effective and enforceable upon service.* A temporary cease-and-desist order is effective and enforceable upon service.

(e) *Service.* Service of a temporary cease-and-desist order shall be made pursuant to § 1081.113(d).

§ 1081.502 Judicial review, duration.

(a) *Availability of judicial review.* Judicial review of a temporary cease-and-desist order shall be available solely as provided in section 1053(c)(2) of the Dodd-Frank Act (12 U.S.C. 5563(c)(2)). Any respondent seeking judicial review of a temporary cease-and-desist order issued under this subpart must, not later than ten calendar days after service of the temporary cease-and-desist order, apply to the United States district court for the judicial district in which the residence or principal office or place of business of the respondent is located, or

the United States District Court for the District of Columbia, for an injunction setting aside, limiting, or suspending the enforcement, operation, or effectiveness of such order.

(b) *Duration.* Unless set aside, limited, or suspended by the Director or his or her designee, or by a court in proceedings authorized under section 1053(c)(2) of the Dodd-Frank Act (12 U.S.C. 5563(c)(2)), a temporary cease-and-desist order shall remain effective and enforceable until:

(1) The effective date of a final order issued upon the conclusion of the adjudication proceeding;

(2) With respect to a temporary cease-and-desist order issued pursuant to § 1081.501(b) only, the Bureau determines by examination or otherwise that the books and records are accurate and reflect the financial condition of the respondent, and the Director or his or her designee issues an order terminating, limiting, or suspending the temporary cease-and-desist order.

Dated: September 10, 2013.

Richard Cordray,

Director, Bureau of Consumer Financial Protection.

[FR Doc. 2013-23229 Filed 9-25-13; 8:45 am]

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FEDERAL HOUSING FINANCE AGENCY

12 CFR Part 1238

[No. 2013-N-11]

Orders: Information Reporting With Respect to Stress Testing of Regulated Entities

AGENCY: Federal Housing Finance Agency.

ACTION: Orders.

SUMMARY: Three Orders with identical text are being issued by the Federal Housing Finance Agency (FHFA) to supplement the final rule implementing section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The rule and Order require the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and each of the twelve Federal Home Loan Banks (Banks) (any of the Banks singularly, Bank; Fannie Mae and Freddie Mac collectively, the Enterprises; the Enterprises and the Banks collectively, regulated entities; any of the regulated entities singularly, regulated entity) that has total consolidated assets of more than \$10 billion to conduct annual

stress tests to determine whether the companies have the capital necessary to absorb losses as a result of adverse economic conditions. One Order applies to the Federal Home Loan Banks; one Order applies to Fannie Mae; and one Order applies to Freddie Mac.

DATES: Each Order with accompanying Summary Instructions and Guidance is effective on October 28, 2013.

FOR FURTHER INFORMATION CONTACT: Naa Awaa Tagoe, Senior Associate Director, Office of Financial Analysis, Modeling and Simulations, (202) 649-3140, naawaa.tagoe@fhfa.gov; Fred Graham, Deputy Director, Division of Federal Home Loan Bank Regulation, (202) 649-3500, fred.graham@fhfa.gov; or Mark D. Laponsky, Deputy General Counsel, Office of General Counsel, (202) 649-3054 (these are not toll-free numbers), mark.laponsky@fhfa.gov. The telephone number for the Telecommunications Device for the Hearing Impaired is (800) 877-8339.

SUPPLEMENTARY INFORMATION:

I. Background

FHFA is responsible for ensuring that the regulated entities operate in a safe and sound manner, including the maintenance of adequate capital and internal controls, that their operations and activities foster liquid, efficient, competitive, and resilient national housing finance markets, and that they carry out their public policy missions through authorized activities. See 12 U.S.C. 4513. These Orders are being issued under 12 U.S.C. 4514(a), which authorizes the Director of FHFA to require by Order that the regulated entities submit regular or special reports to FHFA and establishes remedies and procedures for failing to make reports required by Order. The Summary Instructions and Guidance accompanying each Order provides to the regulated entities general advice concerning the content and format of reports required by the Order and rule.

These initial Orders communicate to the regulated entities their reporting requirements under the framework established by the final rule, and the accompanying Summary Instructions and Guidance provide general information on the reporting requirements. Separate Orders will be issued to advise the regulated entities of the scenarios to be used for the initial stress testing. FHFA anticipates supplementing the rule annually with Orders that provide test scenarios and other instructions and guidance (which may include adjustments to the instructions and advice, changes to the required elements and format, and

transmission of the annual scenarios to the regulated entities).

II. Order, Summary Instructions and Guidance

For the convenience of the affected parties, the text of the Orders is recited below in its entirety. You may access these Orders from FHFA's Web site at <http://www.fhfa.gov/Default.aspx?Page=43>. The Orders and Summary Instructions and Guidance will be available for public inspection and copying at the Federal Housing Finance Agency, Eighth Floor, 400 Seventh St. SW., Washington, DC 20024. To make an appointment, call (202) 649-3804.

The text of the Orders and the Summary Instructions and Guidance is as follows:

Federal Housing Finance Agency

Order Nos. 2013-OR-B-1, 2013-OR-FNMA-1, and 2013-OR-FHLMC-1

Information Reporting with Respect to Stress Testing of Regulated Entities

Whereas, section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer

Protection Act ("Dodd-Frank Act") requires certain financial companies with total consolidated assets of more than \$10 billion, and which are regulated by a primary Federal financial regulatory agency, to conduct annual stress tests to determine whether the companies have the capital necessary to absorb losses as a result of adverse economic conditions;

Whereas, the Federal Housing Finance Agency ("FHFA") is the primary Federal financial regulator of the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and each of the 12 Federal Home Loan Banks ("Bank") (individually, a "regulated entity" and, collectively, the "regulated entities");

Whereas, each of the regulated entities currently has total consolidated assets of more than \$10 billion;

Whereas, FHFA must receive timely information from the regulated entities regarding the stress test results, and section 165(i)(2)(B) of the Dodd-Frank Act requires each regulated entity to submit a report to FHFA and the Board of Governors of the Federal Reserve System (Board), at such time, in such form, and containing such information as FHFA shall require;

Whereas, FHFA's rule implementing section 165(i)(2) of the Dodd-Frank Act requires that "[e]ach regulated entity must

file a report in the manner and form established by FHFA." 12 CFR § 1238.5(b); and

Whereas, section 1314 of the Safety and Soundness Act, 12 U.S.C. § 4514(a) authorizes the Director of FHFA to require regulated entities, by general or specific order, to submit such reports on their management, activities, and operation as the Director considers appropriate.

Now therefore, it is hereby ordered as follows:

Each regulated entity, pursuant to 12 CFR part 1238, shall report to FHFA and to the Board information with the content and in the form described in the Summary Instructions and Guidance dated September 9, 2013, and accompanying this Order, on the schedule prescribed in FHFA's final rule, 12 CFR part 1238, and in the Summary Instructions and Guidance.

This Order is effective 30 days after publication in the **Federal Register**.

Signed at Washington, DC, this 9th day of September, 2013.

Edward J. DeMarco,

Acting Director, Federal Housing Finance Agency.

The Summary Instructions and Guidance are as follows:



Dodd-Frank Stress Tests

Summary Instructions and Guidance

September 9, 2013

Accompanying Order No. 2013-OR-FNMA-1,

Order No. 2013-OR-FHLMC-1, and

Order No. 2013-OR-B-1

Federal Housing Finance Agency

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Introduction

Section 165(i)(2) of the Dodd-Frank Act requires certain financial companies with total consolidated assets of more than \$10 billion, and which are regulated by a primary federal financial regulatory agency, to conduct annual stress tests to determine whether the companies have the capital necessary to absorb losses as a result of adverse economic conditions. The Federal Housing Finance Agency (FHFA) is the primary federal financial regulator of Fannie Mae, Freddie Mac, and the twelve Federal Home Loan Banks (Banks) referred to herein as each of the Banks (any of the Banks singularly, Bank; Fannie Mae and Freddie Mac collectively, the Enterprises; the Enterprises and the Banks collectively, regulated entities; any of the regulated entities singularly, regulated entity).

While each of the regulated entities currently has total consolidated assets of more than \$10 billion, the final rule expressly retains the Director's discretion to require any regulated entity that falls below the \$10 billion threshold to conduct the stress test.

The Enterprises capital positions, supported and restricted by the Senior Preferred Stock Purchase Agreements with the Department of the Treasury are unique. Nonetheless, the Enterprises incorporate capital into their models for new business and to determine adequate returns (among other things). FHFA expects the Enterprises to have processes and procedures for managing their businesses notwithstanding Treasury's

support. Therefore, the rule and these instructions apply equally to the Enterprises and the Banks.

FHFA's final rule implementing the Dodd-Frank Act stress testing requirements sets forth the basic requirements for implementing the Dodd-Frank Stress Tests and reporting the results. FHFA anticipates supplementing the rule annually with reporting schedules and such additional Orders, instructions and guidance as may be necessary.

This document presents the general instructions and guidance that each regulated entity is expected to follow in conducting stress tests and reporting and publishing results under the rule.

General instructions and guidance are provided relating to:

- Scenario assumptions;
- Reporting and timing;
- Stress test process governance;
- Use of stress test results;
- Incomplete data;
- Evaluation of stress test processes
- Correspondence related to Dodd-Frank stress tests

Dodd-Frank Stress Test Scenarios

For purposes of the Dodd-Frank Stress Test, the regulated entities are required to submit the results of stress tests based on three scenarios: Baseline, Adverse, and Severely Adverse. Assumptions for the

variables in each separate scenario will be provided as indicated in the rule and may include any of the following:

Real GDP growth
 Nominal GDP growth
 Real disposable income growth
 Nominal disposable income growth
 Unemployment rate
 CPI inflation rate
 3-month Treasury yield
 10-year Treasury yield
 BBB corporate yield
 Mortgage rate
 Dow Jones Total Stock Market Index
 House Price Index
 Commercial Real Estate Price Index
 Market Volatility Index (VIX)
 Private Label Securities (PLS) or Non-Agency Prices for Residential Mortgage-backed Securities (RMBS), Asset-based Securities (ABS), Commercial Mortgage-Backed Securities (CMBS) and other collateral
 Agency Securities Option-Adjusted Spreads (OAS)
 Municipal Securities OAS

FHFA expects each regulated entity to use those variables that are relevant to the entity's line of business and that are consumed by the entity's models. Regulated entities are expected to indicate which variables are included in their stress tests in their reports to FHFA and the Federal Reserve Board of Governors (Board). FHFA also expects each regulated entity to extrapolate the house price paths, the consumer price index or any other of the aforementioned variables beyond the projection date as required.

More detailed instructions for implementing certain assumptions and calculating other-than-temporary-impairments follow:

House Prices

The House Price Index assumptions provided by FHFA will describe the path of national house prices. FHFA expects each regulated entity to extrapolate the national house price path beyond the nine quarters. FHFA will provide with each year's scenarios additional assumptions, if any, for regulated entities to use in this extrapolation, including house price appreciation factors. FHFA also expects each regulated entity to translate the national house price path in each scenario to regional house price paths as appropriate for each regulated entity's models and to interpolate the house price paths to accommodate the frequency of data required by their models.

Missing Interest Rate Series and Other Missing Variables

Regulated entities should develop assumptions for interest rate series and other variables that their models consume but that FHFA does not provide and interpolate those series to accommodate the frequency of data required by their models.

Balance Sheet Evolution

The regulated entities should also make the necessary assumptions for rolling their balance sheets forward through the nine-quarter projection period. Each entity's assumptions should reflect its reasonable expectations future business and conform to its strategic plans. Additionally, the Enterprises should ensure that the size and composition of their books of business

during the stress test are consistent with the goals in FHFA's Conservatorship Scorecard.

Capital Actions

For capital actions, the Banks should take into account their actual capital actions as of the end of the calendar quarter preceding the first quarter of the nine-quarter planning horizon. For each succeeding quarter, they should either assume payment of stock dividends equal to those paid in the year ending at the end of the first quarter of the planning horizon, or, follow any established rules they have for dividends payments.

The Banks should either assume that they do not redeem or repurchase any capital instrument over the planning horizon or that their capital actions will accord with their established capital plans.

They should also assume that they will redeem all mandatorily redeemable capital stock as per their usual practice unless restricted from doing so by FHFA actions.

Finally, they should assume that they will cease dividend payments, capital redemptions, or repurchases (as applicable) when retained earnings fall to zero.

The Enterprises should comply with the terms of the Senior Preferred Stock Agreements, as amended, to determine the level of dividends to pay over the planning horizon.

FHFA will review those assumptions for reasonableness and consistency with the assumptions used by other regulated entities. In all cases, FHFA may require resubmission where it deems assumptions unacceptable.

PLS prices, Agency Securities OAS, Municipal Securities OAS

The assumptions provided by FHFA for these variables are to be applied during the first quarter of the stress test as a shock to the market value of the variable. No additional losses in market value are to be assumed for the remainder of the nine quarter stress test.

Other-than-temporary-impairments and Estimated AMA Losses

FHFA expects the Banks to use the common platform for estimating other-than-temporary impairments on Private Label Securities in each stress test scenario. For estimating AMA losses, the Banks are expected to use their existing modeling processes and may use the common platform.

FHFA Scenarios - Enterprises

The Enterprises are required to conduct additional FHFA-required stress tests (the "FHFA scenarios"), as they have in the past, in conjunction with the initial implementation of the Dodd-Frank Stress Tests. The following year, the Enterprises will be required to conduct only the Dodd-Frank Stress Tests.

For the initial tests, all scenarios start in the fourth quarter of 2013 (2013: Q4) and extend through the fourth quarter of 2016 (2016: Q4). Historical data will be provided in the event that models require that information. The Dodd-Frank Stress Test scenarios will be over a number of identified variables.

Some variables measure economic activity, asset prices or financial conditions, and interest rates over nine quarters. Measures

of economic activity may include: real and nominal Gross Domestic Product (GDP); the unemployment rate of the civilian non-institutional population aged 16 and over; real and nominal disposable personal income; and the Consumer Price Index (CPI). Measures of asset prices or financial conditions may include: indexes of house prices; commercial property prices; equity prices; and U.S. stock-market volatility.

Measures of interest rates may include: the rate on the three month Treasury bill; the yield on the 10-year Treasury bond; the yield on a 10-year BBB corporate security; and the interest rate associated with a conforming, conventional, fixed-rate, 30-year mortgage. Other variables measure the market value of assets and may include: PLS prices; Agency Securities OAS; and Municipal Securities OAS. Reductions in market value (any resulting gains in market value are to be set to a zero loss) are to be posted in quarter one of the relevant Dodd-Frank Stress Test scenario and combined with losses resulting from the application of the identified variables measured over nine quarters.

Reporting Format and Timing

The Enterprises must submit results of the Baseline, Adverse, and Severely Adverse scenarios to FHFA and the Board by February 5 (30 days after required reporting dates for financial institutions with \$50 billion or more of assets) and publish results of only the Severely Adverse scenario between April 15 and April 30. The Banks are to report results of the Baseline, Adverse, and Severely Adverse scenarios to FHFA and the Board by April 30 (30 days after required

reporting dates for financial institutions with less than \$50 billion of assets) and publish results of only the Severely Adverse scenario between July 15 and July 30.

The results of a regulated entity's analysis for each scenario should encompass all potential losses and other impacts to net income and capital that the regulated entity might experience under the scenarios. In all cases, regulated entities should substantiate that their results are consistent with the specified macroeconomic and financial environment, and that the components of their results are internally consistent within each scenario.

The regulated entities are required to report the results to FHFA and the Board using the Dodd Frank Act (DFA) schedules for non-public disclosure provided in Attachment 1. DFA schedules for public disclosure are provided in Attachment 2.

The regulated entities also are required to submit qualitative information describing the methodologies, including any simplifying or other assumptions used to produce the estimates, as well as any other information necessary to fully support the reasonableness of the stress test results.

Each regulated entity must submit its results and any supporting information to FHFA through a secure site. The Enterprises must use the secure server. The Banks must use the secure bank portal.

Stress Test Governance

The board of directors of each regulated entity or a designated committee thereof is responsible for reviewing and approving

policies and procedures established to comply with the rule. The board should also receive and review the results of the stress tests for compliance with the rule and established policies and procedures. Senior management of each regulated entity is responsible for establishing and testing controls. Senior management and each member of the board of directors are to receive a summary of the stress test results.

Use of Stress Test Results

The rule requires that each regulated entity take the results of the annual stress test into account in making any changes, as appropriate, to its capital structure (including the level and composition of capital); its exposures, concentrations, and risk positions; any plans for recovery and resolution; and to improve overall risk management. Consultation with FHFA supervisory staff is expected in making such improvements. If a regulated entity is under FHFA conservatorship, any post-assessment actions would require FHFA's prior approval.

Results should include effects on capital as required under the Dodd-Frank Act stress testing rule. Specifically, and in accordance with the rule, each regulated entity must calculate how each of the following is affected during each quarter of the stress test planning horizon, for each scenario:

- Potential losses, pre-provision net revenues, allowance for loan losses, and future pro forma capital positions over the planning horizon; and
- Capital levels and capital ratios, including regulatory capital and net

worth, each Bank's leverage and permanent capital ratios, and any other capital ratios, as specified by FHFA.

Incomplete Data

All regulated entities are required to report all data elements in the attached FHFA DFA schedules. Failure to submit complete data to FHFA in a timely manner may require resubmission of data or any other remedy or penalty authorized under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended (12 U.S.C. 4501 et seq.) (Safety and Soundness Act) and the Federal Home Loan Bank Act, as amended (12 U.S.C. 1421 through 1449) (Bank Act).

Evaluation of Stress Test Processes

FHFA will focus particular attention on the processes surrounding the implementation of the scenarios to ensure that these processes are robust and that they capture and stress key vulnerabilities and idiosyncratic risks facing the firm; and that the translation of the scenario into loss, revenue, and post-stress capital projections is conceptually sound and implemented in a well-controlled manner. FHFA will evaluate the extent to which stress testing processes at the regulated entities adhere to the regulatory principles outlined in Appendix 1. Failure to follow these principles in a timely manner constitutes a basis for objection to results, which may result in monetary penalties, revocation of publication or other remedy or penalty, authorized under the Safety and Soundness Act and the Bank Act.

Correspondence Related to Dodd-Frank Stress Tests

All correspondence and questions regarding this exercise and related issues should be communicated to a secure mailbox, the address to which will be provided directly to the regulated entities.

Questions will be catalogued and where appropriate, written responses (removing

any regulated entity identifying information) will be provided to all regulated entities via secure e-mail. Any regulated entity-specific questions submitted to the secure mailbox will be addressed only with the relevant regulated entity via the same secure mailbox. If needed, meetings may be scheduled to discuss submitted questions in more detail; however, only those responses that come through the secure mailbox will be considered official.

Appendix 1: Regulatory Expectations for a Stress Testing Process

A regulated entity's stress testing process should adhere to the following principles:

Principle 1: The regulated entity has a sound risk measurement and management infrastructure that supports the identification, measurement, assessment, and control of all material risks arising from its exposures and business activities.

- A satisfactory stress testing process requires (1) a comprehensive risk identification process, and (2) complete and accurate measurement and assessment of all material risks.
- A regulated entity should measure or assess the full spectrum of risks that face the regulated entity, using both quantitative and qualitative methods, where applicable.
- The regulated entity should have data capture and retention systems that allow for the input, use, and storage of information required for sound risk identification and measurement and to produce reliable inputs for assessments of capital adequacy.
- Quantitative processes for measuring risks should meet supervisory expectations for model effectiveness and be supported by robust model development, documentation, validation,

and overall model governance practices. Both qualitative and quantitative processes for assessing risk should be transparent, repeatable, and reviewable by an independent party.

- Any identified weaknesses in risk measures used as inputs to the stress testing process should be documented and reported to relevant parties, with an assessment of the potential impact of risk-measurement weaknesses on the reliability of the stress test results.

Principle 2: The regulated entity has effective processes for translating risk measures into estimates of potential losses over a range of stressful scenarios and environments and for aggregating those estimated losses across the regulated entity.

- Stress tests should include methodologies that generate estimates of potential losses for all material risk exposures, one of which should be an enterprise-wide stress test using scenario analysis. Methodologies should be complementary, not suffer from common limitations, and minimize reliance on common assumptions.
- Using the loss estimation methodologies for its various risk exposures, a regulated entity should develop consistent and repeatable processes to aggregate its loss estimates on an enterprise-wide basis.

- A regulated entity should demonstrate that its loss estimation tools are developed using sound modeling approaches, appropriate for the manner in which they are being employed, and that the most relevant limitations are clearly identified, well documented, and appropriately communicated.
- A regulated entity should recognize that its loss projections are estimates and should have a good understanding of the uncertainty around those estimates, including the potential margin of error and the sensitivity of the estimates to changes in inputs and key assumptions.

Principle 3: The regulated entity has a clear definition of available capital resources and an effective process for estimating available capital resources (including any projected revenues) over the same range of stressful scenarios and environments used for estimating losses.

- Management and the Board of directors should understand the loss-absorption capabilities of the components of the regulated entity's capital base, and maintain projection methodologies for each of the capital components included in relevant capital adequacy metrics.
- In estimating available capital resources, a regulated entity will need to consider not only its current positions and mix of capital instruments, but also how its capital resources may evolve over time under varying circumstances and stress scenarios.

- As part of a comprehensive enterprise-wide stress testing program, projections of pre-provision net revenue (PPNR) should be consistent with balance sheet and other exposure assumptions used for related loss estimation. Projections should estimate all key elements of PPNR, including net interest income, non-interest income, and non-interest expense at a level of granularity consistent with material revenue and expense components.
- A regulated entity should demonstrate that its capital resource estimation tools are developed using sound modeling approaches, appropriate for the manner in which they are being employed, and that the most relevant limitations are clearly identified, well documented, and appropriately communicated.
- A regulated entity should recognize that its projections of capital resources are estimates and should have a good understanding of the uncertainty around those estimates, including the potential margin of error and the sensitivity of the estimates to changes in inputs and key assumptions.

Principle 4: The regulated entity has processes for bringing together estimates of losses and capital resources to assess the combined impact on capital adequacy in relation to the regulated entity's stated goals for the level and composition of capital.

- A regulated entity should have a comprehensive and consistently executed process for combining loss, resource, and balance sheet estimates to assess the baseline and post-stress impact of those estimates on capital measures.
- A regulated entity should calculate and use several capital measures that represent both leverage and risk at specified time horizons under both baseline and stressful conditions, consistent with its capital policy framework. Measures should include quarterly estimates for the impact on capital and leverage ratios as well as other capital and risk measures useful in assessing overall capital adequacy.
- The processes for bringing together estimates of losses and capital resources should ensure that appropriately stressful conditions over the regulated entity's planning horizon have been incorporated to properly address the institutions' unique vulnerabilities.
- The processes should provide for the presentation of any information that may have material bearing on the regulated entity's capital adequacy assessment, including all relevant risks and strategic factors, as well as key uncertainties and process limitations.

Principle 5: The regulated entity has a comprehensive capital policy and robust capital planning practices for establishing capital goals, determining appropriate capital levels and composition of capital,

making decisions about capital actions, and maintaining capital contingency plans.

Capital Policy

- A capital policy is defined as a regulated entity's written assessment of the principles and guidelines used for capital planning, capital issuance, and usage and distributions, including internal capital goals, the quantitative or qualitative guidelines for dividend and stock repurchase decisions, the strategies for addressing potential capital shortfalls, and the internal governance procedures around capital policy principles and guidelines.
- A regulated entity should establish capital goals aligned with its risk appetite and risk profile as well as expectations of stakeholders, providing specific targets for the level and composition of capital. The regulated entity should ensure that maintaining its internal capital goals will allow it to continue its operations under stressful conditions.
- The capital policy should describe the decision making processes regarding capital goals, the level and composition of capital, capital actions, and capital contingency plans, including an explanation of the roles and responsibilities of key decision makers and information and analysis used to make decisions.
- The regulated entity should outline in its policy specific capital contingency actions it would consider to remedy any current or prospective deficiencies in its capital position, including any triggers and escalation procedures. The policy

should also include a detailed explanation of the circumstances in which it will reduce or suspend a dividend or repurchase program, or will not execute a previously planned capital action.

- A regulated entity should establish a minimum frequency with which its capital plan is reevaluated (at least annually). In addition, a regulated entity should review its capital policy at least annually to ensure it remains relevant and current.

Capital Planning Practices

- At regular intervals, a regulated entity should compare the estimates of baseline and post-stress capital measures (see Principle 4) to the capital goals established in the capital policy for purposes of informing capital decisions.
- For capital decisions, consideration should be given to any information that may have material bearing on the regulated entity's capital adequacy assessment, including all relevant risks and strategic factors, key uncertainties, and limitations of the stress test.
- Assessments of capital adequacy and decisions about capital should be supported by high-quality data and information, informed by current and relevant analysis, and subject to challenge by senior management and the Board of directors.
- Periodically, the regulated entity should conduct a thorough assessment of its capital contingency strategies, including their feasibility under stress, impact, timing, and potential stakeholder reactions.

- A regulated entity should administer its capital planning activities and capital decision processes in conformance with its policy framework, documenting and justifying any divergence from policy.

Principle 6: The regulated entity has robust internal controls governing capital adequacy process components, including policies and procedures, change control, model validation and independent review, comprehensive documentation, and review by internal audit.

- The internal control framework should encompass the entire stress test, including the risk measurement and management systems used to produce input data, the models and other techniques used to estimate loss and resource estimates, the process for making capital adequacy decisions, and the aggregation and reporting framework used to produce management and board reporting. The set of control functions in place should provide confirmation that all aspects of the stress test are functioning as intended.
- Policies and procedures should ensure a consistent and repeatable process and provide transparency to third parties for their understanding of a regulated entity's stress test processes and practices. Policies and procedures should be comprehensive, relevant to their use in the stress test, periodically updated and approved, and cover the entire stress test and all of its components.
- Specific to the stress test, a regulated entity should have internal controls that ensure the integrity of reported results

and that all material changes to the stress test and its components are appropriately documented, reviewed, and approved. A regulated entity should have controls to ensure that management information systems are robust enough to support stress tests with sufficient flexibility to run ad hoc analysis as needed.

- Expectations for validation and independent review for components of the stress test are consistent with existing supervisory guidance on model risk management. Models should be independently validated or otherwise reviewed in line with model risk management and model governance expectations.
- A regulated entity should have clear and comprehensive documentation for all aspects of its stress test, including its risk measurement and management infrastructure, loss- and resource-estimation methodologies, the process for making capital decisions, and efficacy of control and governance functions.
- A regulated entity's internal audit should play a strong role in evaluating the stress test and its components. A full review of the capital adequacy process component should be done by audit periodically to ensure that as a whole the stress test is functioning as expected and in accordance with the regulated entity's policies and procedures. Internal audit should review the manner in which stress test deficiencies are identified, tracked, and remediated.

Principle 7: The regulated entity has effective board and senior management oversight of the stress test, including periodic review of the regulated entity's risk infrastructure and loss and resource estimation methodologies; evaluation of capital goals, assessment of the appropriateness of stressful scenarios considered, regular review of any limitations and uncertainties in all aspects of the stress test, and approval of capital decisions.

- The Board of directors should make informed decisions on capital adequacy for its regulated entity by receiving sufficient information detailing the risks the regulated entity faces, its exposures and activities, and the impact that loss and resource estimates may have on its capital position.
- Information provided to the board about capital adequacy should be framed against the capital goals established by the regulated entity and by obligations to external stakeholders, and consider capital adequacy for the regulated entity with respect to the current circumstances as well as on a pro forma, post-stress basis.
- The information the board of directors reviews should include a representation of key limitations, assumptions, and uncertainties within the stress test, enabling the board to have the perspective to effectively understand and challenge reported results. The board should take action when weaknesses in the stress test are identified, giving full consideration to the impact of those weaknesses in their capital decisions.

- Senior management should ensure that all weaknesses in the stress test are identified, as well as key assumptions, limitations, and uncertainties, and evaluate them for materiality (both individually and collectively). Senior management also should have remediation plans for any weaknesses affecting stress test reliability or results.

- Using appropriate information, senior management should make informed recommendations to the Board of directors about the regulated entity's capital, including capital goals and

distribution decisions. Senior management should include supporting information to highlight key assumptions, limitations, and uncertainties in the stress test that may affect capital decisions.

- A regulated entity should appropriately document the key decisions about capital adequacy – including capital actions – made by the Board of directors and senior management, and describe the information used to make those decisions.

Attachment 1: FHFA DFA Reporting Schedules (Non-Public)

FHLBank Stress Test Templates

Instructions:

1. All numbers should be reported in millions to two decimal places.
2. Reported numbers should reflect the 9/30/2013 "as of" date.
3. The following templates are for intended for disclosure to FHFA and also are to be used for reporting to the Board of Governors of the Federal Reserve System.

**FHLBank Dodd-Frank Stress Test Template
(Disclosure to FHFA ONLY)**

Most Recent Quarter Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8 Q9

Capital Roll Forward (BASE)

- CAPITAL
- 1 Beginning Capital
- 2 Net Income
- 3 Less: Dividends
- 4 Other Capital Actions
- 5 Change in AOCI
- 6 Other

7 Ending Capital

- 8 Regulator Capital

Capital Ratios

- 9 Regulatory Capital
- 10 Leverage Capital
- 11 Permanent Capital

**FHLBank Dodd-Frank Stress Test Template
(Disclosure to FHFA ONLY)**

Most Recent Quarter Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8 Q9

Capital Roll Forward (ADVERSE)

- CAPITAL
- 1 Beginning Capital
- 2 Net Income
- 3 Less: Dividends
- 4 Other Capital Actions
- 5 Change in AOCI
- 6 Other

7 Ending Capital

8 Regulator Capital

Capital Ratios

- 9 Regulatory Capital
- 10 Leverage Capital
- 11 Permanent Capital

**FHLBank Dodd-Frank Stress Test Template
(Disclosure to FHFA ONLY)**

Most Recent Quarter Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8 Q9

Capital Roll Forward (SEVERE)

- CAPITAL
- 1 Beginning Capital
- 2 Net Income
- 3 Less: Dividends
- 4 Other Capital Actions
- 5 Change in AOCI
- 6 Other

7 Ending Capital

- 8 Regulator Capital

Capital Ratios

- 9 Regulatory Capital
- 10 Leverage Capital
- 11 Permanent Capital

**FHLBank Dodd-Frank Stress Test Template
(Disclosure to FHFA ONLY)**

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
<u>Credit (BASE)</u>									
CREDIT EXPENSES									
1 Provision for credit losses									
PLS CREDIT QUALITY									
2 Principal									
3 Principal writedown									
4 Balance									
5 Credit support									
COUNTERPARTY CREDIT									
6 Unsecured credit									
7 Unsecured derivative counterparty exposure									
8 Payment from private mortgage insurers									

Most Recent Quarter

**FHLBank Dodd-Frank Stress Test Template
(Disclosure to FHFA ONLY)**

Most Recent Quarter	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9

Credit (ADVERSE)

CREDIT EXPENSES

1 Provision for credit losses

PLS CREDIT QUALITY

2 Principal

3 Principal writedown

4 Balance

5 Credit support

COUNTERPARTY CREDIT

6 Unsecured credit

7 Unsecured derivative counterparty exposure

8 Payment from private mortgage insurers

**FHLBank Dodd-Frank Stress Test Template
(Disclosure to FHFA ONLY)**

Most Recent Quarter	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9

Credit (SEVERE)

CREDIT EXPENSES

- 1 Provision for credit losses

PLS CREDIT QUALITY

- 2 Principal
- 3 Principal writedown
- 4 Balance
- 5 Credit support

COUNTERPARTY CREDIT

- 6 Unsecured credit
- 7 Unsecured derivative counterparty exposure
- 8 Payment from private mortgage insurers

Enterprise Stress Test Templates

Instructions:

1. All numbers should be reported in billions, unless otherwise noted.
2. Reported numbers should reflect the 9/30/2013 "as of" date.
3. The following templates are for intended for disclosure to FHFA and also are to be used for reporting to the Board of Governors of the Federal Reserve System.

Enterprise Dodd-Frank Stress Test Template (Disclosure to FHFA ONLY)

(\$s in billions)

Income Statement (BASE)	Most Recent Quarter	Q1	Q2	Q3	Q4	Q5
Interest income:						
1 Securities						
2 Mortgage loans						
3 Other						
4 Total interest income						
Interest expense:						
5 Short-term debt						
6 Long-term debt						
7 Other debt/Interest expense						
8 Total interest expense						
9 Net interest income						
10 Guaranty fees						
11 Other income						
12 Total revenue						
13 (Provision) benefit for credit losses						
14 Total revenue after (provision) benefit for credit losses						
15 Derivatives gains (losses)						
16 Trading gains (losses)						
17 Other gains (losses)						
18 REO (foreclosed property exp.)						
19 SOP 03-3 losses, net						
20 Security impairments						
21 Administrative expenses						
22 Other expenses						
23 Pre-Tax Income (Loss)						
24 Provision (benefit) for federal income taxes						
25 Extraordinary gains (losses), net of tax effect						
26 Net income (Loss)						

Enterprise Dodd-Frank Stress Test Template (Disclosure to FHFA ONLY)

(\$s in billions)

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
	Most Recent Quarter								
Credit (SEVERE)									
CREDIT EXPENSES									
1	Credit losses								
2	REO (foreclosed property exp.)								
3	Net charge-offs								
4	Provision for credit losses								
5	SOP 03-3 losses, net								
6	Total credit expenses								
LOAN LOSS RESERVE									
7	Loan loss reserve beginning balance								
8	Net charge-offs								
9	Provision (benefit) for loan/guaranty losses								
10	Other								
11	Allowance for accrued interest receivable								
12	Allowance for accrued property taxes and insurance								
13	Ending total loan loss reserve								
PAYMENTS FROM PRIVATE MORTGAGE INSURERS									
14	MGIC								
15	Radian								
16	United								
17	Genworth								
18	PMI								
19	Other								
CREDIT QUALITY									
20	Defaults (count)								
21	REO acquisitions (count)								
22	Average seriously delinquent loans (count)								
23	Average seriously delinquent rate (%)								
24	Aggregate UPB of seriously delinquent loans (\$)								
25	Loan modifications (count)								
26	Special Mention (count)								
27	Special Mention (\$)								
28	Substandard (count)								
29	Substandard (\$)								
30	Doubtful (count)								
31	Doubtful (\$)								
32	Loss (count)								
33	Loss (\$)								

Stress Test Income and Balance Sheet Mapping Templates

Instructions:

1. These templates are provided as a resource to ensure that all regulated entities define income and balance sheet line items the correct way by mapping each line item to the appropriate CRS field(s).
2. These templates are a resource only and need not be returned to the FHFA.

FHLBank Dodd-Frank Stress Test Mapping Template

(\$ in millions)

Income Statement

CRS Fields

Interest Income:	
1 Advances	sum(si1000, si1000p, si1100)
2 Whole loans held for portfolio	si1900
3 Investment Securities	si1750
4 Fed Funds	si1400
5 Other Interest Income	sum(si2000, si2200, si1200, si1250, si1300)
6 Total Interest Income	si2300
Interest Expense:	
7 CO Bonds	si2450
8 Discount Notes	si2475
9 Member Deposits	si2500+si2550
10 Other Interest Expense	sum(si2700, si2900, si2900r, si2900sd, si2600)
11 Total Interest Expense	si3000
12 Net interest income	si3100
13 Provision (reversal) for credit losses on mortgage loans	si3200
14 Net Interest Income after mortgage loan loss provision	si3300
15 Derivatives gains (losses)	si3800
16 Gains (losses) on securities	sum(si3600, si3700, si3725, si3750)
17 Total net gain (loss) on changes in fair value	si6700
18 Total OTTI credit charge	sum(si7050, si6950)
19 Other gains (losses)	sum(si3500, si5300, si3900)
20 Operating expenses	si4400
21 Other expenses	sum(si4500, si6800, si4700)
22 Income (loss) before assessments	si4900
23 Total assessments	si5150
24 Net income (Loss)	si5400

FHLBank Dodd-Frank Stress Test Mapping Template

(\$ in millions)

Balance Sheet

CRS Fields

ASSETS

1	Advances	
2	Investment Securities	
3	Mortgage Loans	
4	Allowance for loan losses	
5	Fed Funds	
6	Other assets	
7	Total assets	sum(sc1800,sc1900) sc1575 sc2100 sc2200 sc1600 sum (sc1000,sc1100,sc1150,sc1200,sc2400,sc2500,sc2600,sc2700,sc2900) sc3000

LIABILITIES

8	CO bonds	
9	Discount notes	
10	Member deposits	
11	Other liabilities	
12	Total liabilities	sum (sc4700,sc8000r,sc5200,sc5300,sc5400,sc5500,sc5700,sc4600sd) sc5500

CAPITAL

13	Class B capital stock	
14	Class A capital stock	
15	Capital stock pre-conversion	
16	Retained earnings (unrestricted)	
17	Retained earnings (restricted)	
18	Accumulated other comprehensive income (loss)	
19	Total capital	sc8000c sc8000b sc8000a sc8100a sc8100b sc8325 sc8400

Total liabilities and capital

sc8500

Enterprise Dodd-Frank Stress Test Template

(\$ in millions)

Income Statement

	CRS Fields
Interest income:	
1 Securities	SI1750
2 Mortgage loans	sum(SI1900, SI1901)
3 Other	sum(SI1800, SI2100)
4 Total interest income	SI2300
Interest expense:	
5 Short-term debt	SI2475
6 Long-term debt	sum(SI2450, SI2450a)
7 Other Debt/Interest Expense	sum (SI2700, SI2900)
8 Total interest expense	SI3000
9 Net interest income	SI3100
10 Guaranty fees	SI3900k
11 Fee and float income	sum(SI3900d, SI3900e, SI3900f, SI3900g, SI3900h, SI3900i, SI3900j)
12 Total revenue	sum(SI3200, SI4700f)
13 (Provision) benefit for credit losses	
14 Total revenue after (provision) benefit for credit losses	
15 Derivatives gains (losses)	SI3800
16 Trading gains (losses)	SI3650a
17 Other gains (losses)	sum (SI 5300, SI5300a, SI3900q, SI3650c, SI3625, SI3900b, SI3900c)
18 REO (foreclosed property exp.)	SI3250
19 SOP 03-3 losses, net	SI3900m
20 Security impairments, net	SI7050
21 Administrative expenses	SI4400
22 Other expenses	sum (SI4700a, SI4700b, SI4700c, SI4700d, SI4700e)
23 Pre-Tax Income (Loss)	SI4900
24 Provision (benefit) for federal income taxes	SI4950
25 Extraordinary gains (losses), net of tax effect	sum(SI5325, SI5350)
26 Net income (Loss)	SI5375
27 Less: Net loss (income) attributable to the noncontrolling interest	SI4600
28 Net income (loss) attributable to Enterprise	SI5400

Enterprise Dodd-Frank Stress Test Template

(\$ in millions)

Balance Sheet

	CRS Fields
ASSETS	
1 Cash and cash equivalents	sum(SC1000, SC1000a, SC1600)
2 Investments in securities	SC1400
3 Available-for-sale, at fair value	SC1500
4 Trading, at fair value	sum(SC2000, SC2100, SC2100a)
5 Mortgage loans, excluding loss allowance	SC2200
6 Allowance for loan losses	SC2825
7 Deferred tax assets, net of allowance	sum(SC2500, SC2700, SC2350, SC2900)
8 Other assets	SC3000
9 Total Assets	
LIABILITIES	
10 Short-term debt	SC5000
11 Long-term debt	SC4800
12 Debt of consolidated trusts/PCs	sum(SC4800a, SC5000a)
13 Guarantee fee obligation	SC5700k
14 Reserve for guaranty losses	SC5700l
15 Other liabilities	sum(SC5200, SC4400, SC5500, (SC5700 less SC5700l, SC5700k)
16 Total liabilities	SC5800
17 Minority interest	SC6000
CAPITAL	
18 Senior preferred stock	CS10350
19 Preferred stock	CS10300 less CS10350
20 Common stock	SC6200
21 Retained earnings (deficit)	SC6400
22 Accumulated other comprehensive income (loss)	SC6500
23 Treasury stock	SC6600
24 Total stockholders' equity (deficit)	SC6700
25 Total capital (deficit)	SC6800
26 Total liabilities, minority interest and capital	sum(SC5800, SC6000, SC6800)

Scenario Schedule Cover Sheet

Each regulated entity is expected to provide input data for all the tabs in this spreadsheet.

Institution Name:

Date of Data Submission:

Institution Contact Name:

Institution Contact Phone Number:

Institution Contact Email Address:

Supplied Scenario Variables

(Please indicate which scenarios were used in your model by checking the appropriate box.)

- Real GDP Growth
- Nominal GDP Growth
- Real Disposable Income Growth
- Unemployment Rate
- CPI Inflation Rate
- 3-month Treasury Yield
- 10-year Treasury Yield
- BBB corporate yield
- Mortgage rate
- Dow Jones Total Stock Market Index
- House Price Index
- Commercial Real Estate Price Index
- Market Volatility Index (VIX)

Scenario Variables Beyond Those Supplied

Baseline Scenario (additional variables used beyond those supplied)

Variable Number	Variable Name	Variable Definition
1		
2		
3		

Adverse Scenario (additional variables used beyond those supplied)

Variable Number	Variable Name	Variable Definition
1		
2		
3		

Severely Adverse Scenario (additional variables used beyond those supplied)

Variable Number	Variable Name	Variable Definition
1		
2		

Attachment 2: FHFA DFA Reporting Schedules (Public)

**FHLBank Dodd-Frank Stress Test Template - SEVERE
(Disclosure to the Public)**

	Most Recent Quarter	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
1 Net interest income + other non-interest income										
2 Provision (reversal) for credit losses on mortgage loans										
3 Net income (loss) before assessments										
4 Total capital										

Enterprise Dodd-Frank Stress Test Template - SEVERE (Disclosure to the Public)

(\$s in billions)

	Most Recent Quarter	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
1	Total net revenue before provision for credit losses									
2	Benefit (Provision) for credit losses									
3	Net income before taxes									
4	Credit losses (\$s)									
5	Credit losses (% of average portfolio balance)									
6	Ending capital									

Credit losses are defined as charge-offs, net plus foreclosed property expenses