Federal Housing Finance Board
Office of Supervision

Date: February 10, 2003

To: Federal Home Loan Bank Chairs, Presidents, Chief Financial Officers, and Directors of Internal Audit

Office of Finance Chair, Managing Director, and Director of Internal Audit and Compliance

From: Stephen M. Cross
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Office of Supervision

Subject: Business Continuation Contingency Planning

Section 917.3(b)(3)(v) of the Federal Housing Finance Board's (Finance Board) regulations requires each Federal Home Loan Bank's (FHLBank) board of directors to set forth standards for the FHLBank's management regarding business risk including contingency plans, where appropriate. These contingency plans should specify how the affairs of an FHLBank would be conducted if a particular FHLBank were not operating due to a catastrophic or other debilitating event.

Some FHLBanks have entered into bilateral agreements to act as surrogates for each other in the event a debilitating event affected one of the FHLBanks. These arrangements allow members to get needed liquidity during a possible crisis period. The liquidity-transmission mechanism is particularly important since few members have established borrowing relationships with their Federal Reserve Bank. The FHLBanks may wish to consider whether these bilateral agreements should specify activities other than the provision of liquidity for the members of the affected FHLBank that the surrogate FHLBank may provide, *e.g.,* wire services, data processing, collateral management, etc. The establishment of such bilateral arrangements is a prudent and necessary component of business contingency planning.

Guidance

(1) The FHLBanks should enter into bilateral agreements that would allow the FHLBanks to act as surrogates for each other if a debilitating event occurs. The FHLBanks should have in place such bilateral agreements by July 1, 2003, and should notify the Office of Supervision about the substance of the agreement.

(2) The FHLBanks should ensure that appropriate legal documents, delegations of authority, access to back-up computer systems, and passwords are in place with the surrogate FHLBank and the Office of Finance, if necessary, that would allow the surrogate FHLBank to operate for the affected FHLBank, to make advances and to purchase or liquidate investments for the affected FHLBank, and to commit the affected FHLBank for proceeds of debt issued, as the two FHLBanks may agree.

(3) The FHLBanks should conduct appropriate testing of these bilateral arrangements and report to the Office of Supervision on the results of these tests no later than October 1, 2003.

(4) The FHLBanks should conduct subsequent periodic testing of these arrangements.

An Office of Supervision advisory bulletin presents guidance to the Banks on the application of legal requirements through the supervisory process. It is not a supervisory determination. Any supervisory determination implementing such guidance is subject to review pursuant to the Procedures for Review of Disputed Supervisory Determinations.

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