# Banking and Finance Law Daily Wrap Up, MORTGAGES—FHFA advisory bulletins provide guidance on third-party relationships, interest rate risk management, (Oct. 1, 2018)

Banking and Finance Law Daily Wrap Up

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The Federal Housing Finance Agency has issued two advisory bulletins, providing guidance for interest rate risk management at the Federal Home Loan Banks, Fannie Mae, and Freddie Mac as well as assessing and managing risks associated with third-party provider relationships.

**Third-party provider relationships.** Advisory Bulletin 2018-08 provides guidance to Fannie Mae and Freddie Mac, the Federal Home Loan Banks (FHLBanks), and the Office of Finance on assessing and managing risks associated with third-party provider relationships. The bulletin defines a third-party provider relationship as a business arrangement between a regulated entity and another entity that provides a product or a service. When entering into third-party provider relationships, the regulated entities can be exposed to financial, operational, legal, compliance, and reputational risk. According to the FHFA, effective risk management of third-party provider relationships is essential to the safe and sound operations of the regulated entities.

Under the bulletin, a regulated entity's program should enable oversight of third-party provider relationships in accordance with the level of risk presented, the nature of the relationship, the scale of the outsourced product or service, and the risk inherent in the relationship. The regulated entities should also ensure that the quality and extent of third-party provider risk management corresponds with the level of risk and the complexity of these relationships. Finally, each regulated entity should manage its program as part of its enterprise-wide risk management program and in accordance with all relevant FHFA guidance.

**Interest rate risk management.** Advisory Bulletin 2018-09 supersedes the FHFA's previous advisory bulletin, Interest Rate Risk Management (2004-05), and describe principles the regulated entities should follow to identify, measure, monitor, and control interest rate risk. The bulletin defines interest rate risk as the change in interest rates that may adversely affect financial condition and performance. As financial interest rates change, the regulated entities may be exposed to changes in: the level of interest rates; the slope and curvature of the yield curve; the volatilities of interest rates; and the spread relationships between assets, liabilities, and derivatives.

Each regulated entity's risk management practices should enable it to identify, measure, monitor, and control its interest rate risk exposures. An effective interest rate risk management function includes appropriate management of risk exposure, policies and procedures, risk limits, internal controls, risk measurement systems, monitoring, and reporting. Finally, the bulletin advises that a regulated entity should periodically review industry standards with regard to interest rate risk management.

Companies: Fannie Mae; Freddie Mac

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