

I. PURPOSE

The purpose of the Audit Committee of the Board is to advise and assist the Board in fulfilling its oversight responsibilities relating to risk management, internal controls, the accounting policies and financial reporting and disclosure practices of the Bank, and the audit and examination of the Bank.

II. MEMBERSHIP

The Committee will be composed of at least five members of the Board, who must all meet the independence requirement in Section 917.7(c) of the regulations of the Federal Housing Finance Board. Committee members and the Committee chair will be designated by the Board, as follows:

- The Committee will include a balance of (i) representatives of community financial institutions and other Bank members and (ii) elected and appointed Directors.
- The terms of the Committee members will be appropriately staggered to provide for continuity of service.
- At least one member of the Committee will have extensive accounting or related financial management experience.

III. POWERS AND RESPONSIBILITIES

The Committee will:

1. In conjunction with the Board:
 - Review, assess the adequacy of, and amend the Committee charter (as needed) on an annual basis or more often, as appropriate
 - Readopt and reapprove the Committee charter at least every three years
2. Direct senior management to maintain the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Bank.
3. Review the basis for the Bank's financial statements and the external auditor's opinion rendered with respect to the financial statements (including the nature and extent of any significant changes in accounting principles or their application in the financial statements) and ensure that policies are in place that are reasonably designed to achieve disclosure and transparency regarding the Bank's true financial performance and governance practices.
4. Oversee the internal audit function by:
 - Selecting, evaluating and, where appropriate, replacing the Director of Audit, who may be removed only with the approval of the Committee
 - Assessing the performance and determining the compensation of the Director of Audit
 - Requiring that the Director of Audit report directly to the Committee on substantive matters and be ultimately accountable to the Committee and the Board
 - Reviewing and approving the internal audit department charter
 - Reviewing budget and staffing needs for the Bank's internal audit department and making appropriate budget and staffing recommendations to the Board for approval
 - Reviewing and approving the internal audit plan and revisions, as needed
 - Reviewing the scope of audit services required, significant accounting policies, significant risks and exposures, audit activities and audit findings
 - Reviewing internal audit department compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing
5. Oversee the external audit function by:
 - Approving the external auditor's annual engagement letter (if applicable)
 - Reviewing the performance of the external auditor
 - Making recommendations to the Board regarding the appointment, renewal or termination of the external auditor
6. Provide an independent, direct channel of communication between the Board and the internal and external auditors.
7. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
8. Ensure that senior management has established and is maintaining an adequate internal control system within the Bank by:
 - Reviewing the Bank's internal control system and the resolution of identified material weaknesses and reportable conditions in the internal control system, including the prevention or detection of management override or compromise of the internal control system
 - Reviewing the programs and policies of the Bank designed to ensure compliance with applicable laws, regulations and policies and monitoring the results of these compliance efforts

9. Review the policies and procedures established by senior management to assess and monitor implementation of the Bank's strategic business plan and the operating goals and objectives contained in the plan.
10. Review with senior management and the external auditor at the completion of the annual audit:
 - The Bank's annual financial statements and related notes
 - The external auditor's audit of the financial statements and audit report
 - Any significant changes required in the external auditor's audit plan
 - Any serious difficulties or disputes between the external auditor and management encountered during the course of the audit
11. Review with senior management and the Director of Audit:
 - Significant audit findings and recommendations and management's responses
 - Management's implementation of significant audit recommendations
 - Difficulties encountered in the course of any internal audit, including restrictions on the scope of the auditors' work or access to required information
 - Legal and regulatory matters within the scope of any audit that may have a material effect on the financial statements of the Bank, compliance with the Bank's policies and programs, and reports received from regulators

In carrying out its responsibilities, the Committee may rely on the assistance, advice and recommendations of Bank management and other advisors, as needed, and may refer specific matters to other committees of the Board. The Committee will report its activities and recommendations to the Board through the Committee chair.

IV. MEETINGS

The Committee will meet at least four times per year, and more frequently as needed, as determined by the Board, the Committee chair, the Bank President, or the Director of Audit.