



Federal Housing Finance Board

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December 7, 1998

Mr. Terry Smith
Executive Vice President
Chief Operating Officer
Federal Home Loan Bank of Dallas
5605 North MacArthur Boulevard
Irving, Texas 75038-2617

Regulatory Interpretation (98-RI-2)

Dear Mr. Smith:

This is in response to your letter of November 20, 1998 sent on behalf of the Federal Home Loan Bank (FHLBank) of Dallas, requesting that the Federal Housing Finance Board (Finance Board) waive a provision of the Financial Management Policy (FMP). More specifically, because the FHLBank of Dallas' leverage ratio currently is 19.71:1, the FHLBank of Dallas is seeking a waiver of section IV.C. of the FMP, which provides that a FHLBank may participate in the proceeds from the issuance of a consolidated obligation (CO) so long as such participation will not cause the FHLBank to exceed the 20:1 leverage limit set forth in the FMP. For the reasons indicated and with the conditions noted below, no waiver of the FMP provision is required to accommodate the FHLBank of Dallas' participation in the issuance of COs.

As indicated in your letter, the FHLBank of Dallas believes that, given the FHLBank's current leverage ratio and the leverage limit provision of the FMP, the FHLBank would be unable to acquire the necessary resources available (i.e., participate in debt issuance proceeds) to meet projected advance demands from its members. The FHLBank of Dallas is currently selling \$1.2 billion in fed funds and has been informed that its largest borrower intends to borrow an additional \$1.1 billion within the next sixty days. In order to accommodate this and other advance demand, the FHLBank would need to begin to participate in CO proceeds prior to making the advances. Once advances are taken down by the members, the borrowing members would purchase stock in the FHLBank sufficient to support those advances. However, because the FHLBank of Dallas' current leverage ratio is 19.71:1, during the time between the FHLBank's participation in CO proceeds in order to make the advance, and the members' purchase of stock to support the advance, the FHLBank would have a leverage ratio of over 20:1.

Section IV.C. of the FMP provides that:

A Bank may participate in COs, so long as entering into such transactions will not cause the Bank's total COs and unsecured liabilities, as defined in Section 910.0 of the Finance Board's regulations (but excluding interBank loans), to exceed 20 times the Bank's total capital. Each Bank shall make every effort to manage its liabilities and capital to ensure compliance with the 20:1 leverage limit.

In order to be able to meet projected advance demand, the FHLBank of Dallas has requested a waiver of this FMP leverage ratio requirement of \$2 billion through January 15, 1998.

The leverage ratio requirement in Section IV.C. of the FMP contains no timing component; it merely states that a Bank may participate in COs so long as the transaction will not "cause the Bank" to exceed the 20:1 ratio. As a matter of practice, however, there always will be some period of time between the issuance of the COs, the use of the proceeds to fund an advance, and the issuance of stock needed to support the advance. That would be especially true where, as here, a member has notified the FHLBank of its intention to take down a large dollar amount of advances in the near term. The Finance Board has determined that the situation presented in your letter would not cause the FHLBank of Dallas to violate the FMP leverage ratio, provided that the COs are to be used to fund advances already requested by a member and for which the member will purchase any required FHLBank stock. Where a FHLBank participates in a CO in order to facilitate the making of advances; and where the necessary stock purchases will bring the FHLBank's leverage ratio back to 20:1 or less within a reasonable period of time, then the Finance Board would not deem that CO transaction to have caused the Bank to exceed the 20:1 ratio. The Finance Board has determined that thirty days presumptively is a reasonable period of time for these purposes.

Before a FHLBank may participate in the proceeds of any CO issuance under this regulatory interpretation, the FHLBank must submit a certification to the Office of Finance and the Finance Board's Office of Supervision, that the Bank is requesting COs in order to fund specific sizable advances to identified members within the next 30 days, and that the stock purchase requirement associated with these advances, once transacted, will be sufficient to ensure that the Bank remains in compliance with the 20:1 leverage limit. The certification must contain the following additional information: (1) the anticipated amount and tenor of the advance; (2) the name of the member expected to receive the advance; (3) the amount of stock the member will purchase to support the advance; (4) the anticipated date the advance will be funded and the stock will be purchased, and (5) the Bank's pro forma calculation of its leverage position after the advance has been made and the additional stock has been purchased. The certification must be executed by the President of the FHLBank.

Because the Finance Board believes that the situation presented in your letter is not in violation of Section IV.C. of the FMP, we have deemed your request for waiver to be moot.

Any further requests for relief from the 20:1 requirement submitted by the FHLBank of Dallas or any other FHLBank must be accompanied by a detailed analysis of the reason why the FHLBank could not achieve compliance with the 20:1 leverage ratio through a roll-off of money market instruments or other investments, through participation of advances to other FHLBanks, or such other means, and why relief from the Finance Board is necessary. The president of any such requesting FHLBank should be prepared to make its case for relief orally before the Finance Board.

If you have any further questions, please call the undersigned at (202) 408-2570.

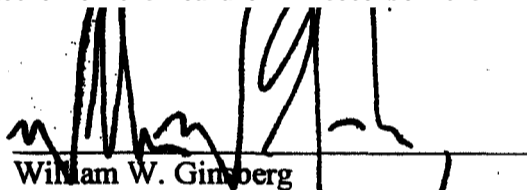
Sincerely,



Deborah F. Silberman

This is a Finance Board regulatory interpretation within the meaning of the Procedures for Requests and Applications adopted by the Board of Directors of the Finance Board pursuant to Resolution No. 98-51 (Oct. 28, 1998). The regulatory guidance set forth herein may be relied upon by the recipient subject to modification or rescission by action of the Board of Directors of the Finance Board.

I concur:



William W. Ginsberg
Managing Director

cc: William W. Ginsberg
James L. Bothwell
Mitchell Berns
John Darr
FHLBank Presidents