



REGULATORY INTERPRETATION 1999-RI-18

Date: October 27, 1999

Subject: Determining Non-Mortgage Investments Ratio Using an Average Monthly Basis

Request Summary:

Resolution Number 99-33, dated May 28, 1999 ("Temporary Change to the Leverage Limit for Year 2000 Liquidity Purposes") provides that through June 30, 2000, the leverage limitation for both the Federal Home Loan Bank (FHLBank) System and for each FHLBank shall be 25 to 1. The Resolution states that during this period, non-mortgage investments for an FHLBank with a leverage ratio greater than 20 to 1 shall not exceed 12 percent of the FHLBank's outstanding consolidated obligations. The Resolution does not specify whether the non-mortgage investments ratio is to be calculated on a daily, monthly, quarterly, or some other basis. An FHLBank has requested that the Federal Housing Finance Board (Finance Board) determine whether calculating the non-mortgage investments ratio on an average monthly basis would be consistent with Resolution Number 99-33.

Background:

Section IV.C. of the Finance Board's Financial Management Policy (FMP) (Res. No. 96-45 (July 3, 1996)) and the debt authorization for the Office of Finance (Res. No. 98-59 (Dec. 2, 1998)) limit the amount of consolidated obligations each FHLBank may have outstanding to 20 times capital. Section 910.1(b) of the Finance Board's regulations (12 C.F.R. § 910.1(b)) similarly limits the aggregate amount of senior bonds the FHLBank System may have outstanding to 20 times capital.

The Finance Board determined (Resolution Number 99-33) that temporary relief from the 20:1 leverage limit was necessary to enhance the FHLBank System's Year 2000 preparedness by allowing the FHLBanks to provide additional Year 2000-related credit to members and to warehouse liquid assets in anticipation of funding Year 2000 related advances. Through Resolution Number 99-33, the Finance Board waived the 20:1 leverage limit contained in the FMP, section 910.1(b) of the Finance Board regulations, and the debt authorization for the Office of Finance, through June 30, 2000. During this period, the leverage limit for the FHLBank System and each FHLBank is 25:1 and non-mortgage investments for an FHLBank with a leverage ratio greater than 20:1 may not exceed 12 percent of that FHLBank's outstanding consolidated obligations. Resolution Number 99-33 defines non-mortgage investments as total investments less mortgage-backed securities, pilot program assets, binding commitments for advances, member deposits, and member capital in the FHLBank.

Resolution Number 99-33 does not indicate whether the non-mortgage investments ratio is to be calculated on a daily, monthly, quarterly, or some other basis.

The FHLBank has indicated that it would be impractical and cumbersome to manage the FHLBank's balance sheet to avoid violating the liquidity ratio requirement if it had to be measured on a daily basis. It is not uncommon for the FHLBank to experience a \$1 billion swing in outstanding advances in a single day. Such changes in the level of advances would alter the FHLBank's non-mortgage investments ratio by about 3 percent. The FHLBank is concerned that if it had to calculate the non-mortgage investments ratio on a daily basis for leverage limit purposes, the FHLBank could never approach a 12 percent non-mortgage investments ratio without risking a violation of the limit, which could prevent the FHLBank from meeting the funding needs of its members during a period of market disruption. The FHLBank therefore requests authorization to determine compliance with the non-mortgage investments ratio on an "average monthly basis."

Analysis or Discussion:

In waiving the 20:1 leverage ratio and imposing a 25:1 limit through June 30, 2000, it was the intent of the Board of Directors of the Finance Board to enable the FHLBanks to provide additional Year 2000 credit to members and to warehouse liquid assets in anticipation of funding Year 2000-related advances. The Resolution was silent as to the basis on which the non-mortgage investments ratio was to be calculated. Allowing the FHLBanks to calculate this ratio on an average monthly basis would be consistent with the Resolution and with the intent of the Board of Directors of the Finance Board to permit the FHLBanks additional flexibility in meeting the Year 2000-related funding needs of their members.

Interpretation:

It is the interpretation of Finance Board staff that through June 30, 2000, a FHLBank with a leverage ratio greater than 20:1 may determine its compliance with the 12 percent non-mortgage investments limitation on an average monthly basis and that this would be consistent with Resolution Number 99-33.

<p>A <u>Regulatory Interpretation</u> applies only to the particular transaction or activity proposed by the requestor, may be relied upon only by the requestor, and is subject to modification or rescission by action of the Board of Directors of the Finance Board. 64 Fed. Reg. 30880 (June 9, 1999), <i>to be codified at</i> 12 C.F.R. part 903.</p>
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