Federal Housing Finance Board
Office of Supervision

Date: April 9, 2002

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

From: Gwen R. Grogan, Acting Deputy Director
Office of Supervision

Subject: Quarterly Liquidity Certification under § 966.9(b)(1)

Background: Section 966.9(b)(1) of the final Office of Finance rule, previously codified as § 910.7(b)(1), requires the President of each Federal Home Loan Bank (Bank) to certify that the Bank will remain in compliance with the liquidity requirements in Section 11(g) of the Federal Home Loan Bank Act (12 U.S.C. 1431(g)), and the Federal Housing Finance Board's (Finance Board) Financial Management Policy (FMP), and will remain capable of making full and timely payment of all of its current obligations, including direct obligations, coming due during the next quarter.

On December 20, 2000, the Finance Board established new minimum, contingency liquidity standards for the Banks, codified as § 932.8, to supersede the additional liquidity requirements in Section III.C of the FMP. The implementation of the new liquidity standards were delayed until the revised limits on unsecured credit in § 932.9 became effective. With § 932.9 in effect as of March 27, 2002, § 932.8 is also in effect and supersedes Section III.C of the FMP.

The other liquidity requirement in the FMP, Section III.B "Statutory Deposit Reserve Requirements" was revised under §965.3 "Liquidity reserves for deposits." While the verbiage has changed slightly, the requirements remain the same as in Section III.B and in 12 U.S.C. 1431(g).

Guidance: Effective March 27, 2002, the remaining liquidity requirements in Section III of the FMP have been superseded by § 932.8. The citations in the § 966.9(b)(1) quarterly certification should specify compliance with §§ 932.8 and 965.3, beginning with the certification to be filed by March 31, 2002.

Because the liquidity requirements in § 932.8 are different from the requirements that they are superseding,[1] any certifications (due on March 31, 2002) that have already been submitted to the Finance Board that do not reference compliance with § 932.8 should be resubmitted. When certifying compliance, cite § 966.9(b)(1) in addition to Section 11(g) of the Act (12 U.S.C. 1431(g)), to ensure a comprehensive and accurate certification.

[1] Section 932.8 sets a minimum contingency liquidity requirement to meet liquidity needs in an amount to cover, at a minimum, five business days of inability to access the consolidated obligation debt markets.