

No: 97-05
Date: January 14, 1997

FEDERAL HOUSING FINANCE BOARD

Suspension of Ban on Investments in Branches
and Agencies of Foreign Banks

WHEREAS, the Board of Directors (Board) of the Federal Housing Finance Board (Finance Board), by Resolution No. 96-45 (July 3, 1996), approved certain revisions to the Financial Management Policy (FMP) for the Federal Home Loan Bank System; and

WHEREAS, the Board intended the revisions to enhance the quality of the FMP and position the Federal Home Loan Banks (Banks) to utilize more effectively their available investment and hedging strategies; and

WHEREAS, the revisions to the FMP made by Resolution No. 96-45 excluded as "eligible financial institutions" the branch and agency offices established by foreign commercial banks within the United States, as well as the head offices of foreign banks, and the branch and agency offices of domestic and foreign banks that are located outside of the U.S.; and

WHEREAS, the Banks, as government-sponsored enterprises (GSEs), are limited-purpose financial institutions that were created to advance the domestic housing finance and community development mission conferred by Congress; and

WHEREAS, the Board believes it is an inappropriate use of the Banks' GSE status to permit the Banks to place their monies overseas in instruments issued by the foreign branch or agency offices of U.S. commercial banks; and

WHEREAS, the Board believes that it is an equally inappropriate use of the Banks' GSE status to permit the Banks to place their monies overseas in instruments issued by the foreign offices of foreign commercial banks, and because the Board is further concerned: (i) that Banks placing funds with the foreign offices of foreign banks may lack the same degree of financial information about those banks as is available for domestic banks; (ii) that foreign banks may not be subject to the same degree of regulatory oversight as is the case with domestic banks; (iii) that recent failures of foreign banks create additional uncertainty as to the degree of protection afforded to the Banks in the event of an insolvency of a foreign bank, such as through the absence of "qualified financial contract" protections in foreign receivership statutes; and (iv) that the Banks (and the Finance Board) do not have the same right to obtain financial information from the foreign banking regulators as they do from the federal banking agencies, the Board believes that it would be inappropriate, and imprudent, for the Banks to place monies with the foreign offices of foreign commercial banks; and

WHEREAS, the Board believes that it is appropriate to extend similar treatment under the FMP to similarly situated banking offices; and

WHEREAS the Board believes that the FMP, as revised by Resolution No. 96-45, treats the head office and the foreign branch and agency offices of a foreign commercial bank in the same manner as it treats the foreign branch and agency offices of U.S. commercial banks, and thus affords to the foreign banks treatment that is no less favorable than that afforded to domestic commercial banks with regard to their foreign offices; and

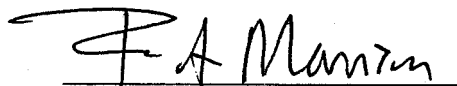
WHEREAS, the Board believes that the FMP, as revised by Resolution No. 96-45, does not treat the U.S. branch and agency offices of foreign commercial banks in the same manner as it treats the domestic offices of U.S. commercial banks, and that it would be appropriate to remedy that disparity in treatment; and

WHEREAS, the Board believes that the revisions to the FMP made by this resolution would treat the U.S. branch and agency offices of foreign commercial banks in the same manner as the U.S. offices of domestic commercial banks, and thus would afford to foreign banks treatment that is no less favorable than that afforded to the U.S. offices of domestic commercial banks with regard to their U.S. offices.

NOW, THEREFORE, BE IT RESOLVED, that the U.S. branch and agency offices of foreign commercial bank are hereby reinstated as eligible financial institutions, provided that the most recently published financial statements of the foreign commercial bank exhibit at least \$250 million of Tier I (or tangible) capital and the foreign bank can be designated at least a Level III counterparty as defined under Section VI.C.2. of the FMP, and has a country risk rating of not lower than AA from Thomson Bankwatch.

FURTHER RESOLVED THAT, the provisions of Resolution No. 96-45 pertaining to the head office, and to all foreign (i.e., non-U.S. located) branch and agency offices, of a foreign commercial bank, and those provisions pertaining to the foreign branch and agency offices of U.S. commercial banks should not be altered at this time, for the prudential reasons described above.

By the Board of Directors of the
Federal Housing Finance Board

A handwritten signature in black ink, appearing to read "Bruce A. Morrison". The signature is written in a cursive style with a large, sweeping initial "B".

Bruce A. Morrison
Chairman