



REGULATORY INTERPRETATION 2001-RI-02

Date: February 8, 2001

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

Request Summary:

Federal Housing Finance Board (Finance Board) regulations generally limit a Federal Home Loan Bank's (FHLBank) assets to no more than 21 times its capital (leverage rule) (12 C.F.R. § 966.3(a)). The leverage rule allows expanded leverage authority of up to 25 to 1 for any FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed 11 percent of its assets (non-mortgage assets ratio). The leverage rule does not specify whether the basic leverage requirement and the non-mortgage assets ratio is to be calculated on a daily, monthly, quarterly or some other basis. Several FHLBanks have asked whether, for purposes of section 966.3(a), the non-mortgage assets ratio could be calculated on a monthly average basis.

Background:

The current leverage limitation, 12 C.F.R. § 966.3(a), (65 Fed. Reg. 36290 (June 7, 2000)) requires a FHLBank to hold total assets not in excess of 21 times the total of its paid-in capital stock, retained earnings, and reserves (excluding loss reserves and liquidity reserves for deposits as required by 12 U.S.C. § 1421(g)). In addition, that rule provides additional leverage authority by allowing a FHLBank to have an asset-based leverage of up to 25 to 1 if the non-mortgage assets held by the FHLBank, after deducting the amount of deposits and capital, do not exceed 11 percent of the FHLBank's total assets. 12 C.F.R. § 966.3(a)(2).

The genesis of the additional 25 to 1 leverage authority was a Finance Board resolution adopted to ease concerns about Year 2000-related liquidity. Finance Board Resolution 99-33 (May 28, 1999) (Temporary Change to the Leverage Limit for Year 2000 Liquidity Purposes). Subsequent to the issuance of Finance Board Resolution 99-33, in response to a request from a FHLBank, the Finance Board issued Regulatory Interpretation 99-18 (Oct. 27, 1999), which determined that using monthly average data to calculate compliance with the leverage limit set forth in that Finance Board Resolution would be consistent with Finance Board Resolution 99-33.

The current FHLBank requesters have indicated that calculating the non-mortgage assets ratio for purposes of 12 C.F.R. § 966.3(a) on any but a monthly average basis is extremely difficult. They argue that it is impractical and cumbersome to manage the FHLBank's balance sheet in such a way as to avoid violating the requirement if the non-mortgage assets ratio is measured on a daily basis. An FHLBank is subject to external events that affect its non-mortgage assets, such

as demand for advances, repayment of advances, and assembling pools of mortgages. The FHLBanks therefore have requested that they be authorized to continue to calculate the non-mortgage assets ratio on an "average monthly basis" for purposes of compliance with the Finance Board's leverage rule.

Analysis or Discussion and Interpretation:

The fact pattern in the current request is virtually identical to the fact pattern presented in Regulatory Interpretation 99-18. Allowing the FHLBanks to calculate this ratio on a monthly average basis would be consistent with the rule and precedent.

Section 966.3(a) is silent as to the basis on which the leverage limit and the non-mortgage assets ratio are to be calculated. Given the arguments made by the FHLBanks, and the Finance Board's position in RI-99-18, which was an interpretation of the Finance Board Resolution that was the precedent to the current leverage limitation, it is the interpretation of the staff that a FHLBank may, at its option, calculate its compliance with 12 C.F.R. § 966.3(a) using a monthly average basis.

A Regulatory Interpretation 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. (See 12 C.F.R. § 907.5)