

DECISION MEMORANDUM OF THE FINANCE BOARD
ACTING WITHOUT A QUORUM

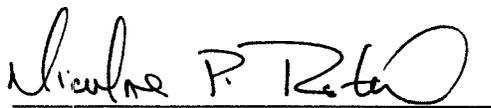
Date: November 10, 1994
No. 94-DM-48

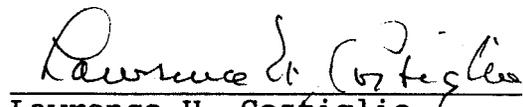
ISSUE: On behalf of the Federal Home Loan Bank (Bank) Presidents' Finance Committee and the Bank Presidents' Conference, Alex Pollock has requested confirmation that, when measuring compliance with the Financial Management Policy's interest rate risk limits, the Federal Housing Finance Board will take into consideration each Bank's determination to include or exclude the FIRREA cash flows in its interest rate risk management strategies.

FACTORS CONSIDERED:

- 0 The revised Financial Management Policy (FMP) adopted by the Finance Board on December 15, 1993 required each Bank to measure and report its interest rate risk position to the Finance Board both with and without projected FIRREA cashflows.
- 0 The revised FMP further directed each Bank's board of directors to adopt an internal policy which, among other things, would address the implications of the FIRREA cash flows and their impact on the Bank's measurement and control of interest rate risk.
- 0 A memorandum to the Finance Board dated December 3, 1993, analyzing the proposed revisions to the FMP that were adopted on December 15, 1993, stated that the Finance Board would need to apply some flexibility when interpreting compliance with the interest rate risk section of the revised FMP; this memorandum explicitly recognized that, as Banks begin to include FIRREA cash flows in their asset/liability management strategies, they could lengthen their assets to the point where the duration of equity policy constraints would be exceeded when, as was required prior to the December 15, 1993 revisions, the FIRREA cash flows were excluded from the measurement.

DECISION: The Finance Board hereby confirms that, when measuring individual Bank compliance with the Financial Management Policy's interest rate risk limits, the Finance Board will take into consideration the Bank's determination to include or exclude the FIRREA cash flows in its interest rate risk management strategies.


Nicolas P. Retsinas


Lawrence U. Costiglio