

No.: 98-54
Date: November 4, 1998

FEDERAL HOUSING FINANCE BOARD

Waiver of the Nine Month Maturity Limits for Certain Money Market Investments Listed in Sections II.B.1. through 5 of the Federal Housing Finance Board's Financial Management Policy for the Federal Home Loan Bank ■

WHEREAS, The Federal Home Loan Bank (FHLBank) ■ wishes to offer a new advance program (Program) to its members to address members' concerns about the availability of liquidity in the fourth quarter of 1999 and the first quarter of 2000 (Y2K Advances):

WHEREAS. in order to hedge the interest rate risk associated with the Program. the FHLBank ■ would use the proceeds from consolidated obligations issued at the time of the commitment for the Y2K Advance. and invest those proceeds in money market instruments with maturities that would coincide with the date the Y2K Advance is scheduled to be drawn:

WHEREAS Sections II.B.1 through II.B.5 of the Federal Housing Finance Board's (Finance Board) Financial Management Policy (FMP) (Fin. Bd. Res. No. 96-45 (July 3, 1996); Fin. Bd. Res. No. 97-21 (March 5, 1997)) limits the maturity of certain money market investments (including U.S. Dollar deposits. commercial paper bank and thrift notes and bankers' acceptances) to nine months;

WHEREAS, as described above. hedging the interest rate risk associated with the Program would involve investments in money market instruments with maturities of more than nine months;

WHEREAS, the FHLBank ■ as requested a waiver of the nine month maturity limits on the money market instruments listed in sections II.B.1 through II.B.5 of the FMP to allow for the FHLBank to use such investments to hedge interest rate risk associated with the Program; and

WHEREAS, the staff of the Finance Board has no legal concerns if the waiver is granted pursuant to the conditions contained in this resolution;

WHEREAS, the staff has advised that the Program can be managed safely and soundly, subject to the conditions contained in this resolution;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Finance Board hereby waives the nine month maturity limits on the money market instruments listed in sections II.B.1 through II.B.5 of the FMP for FHLBank ■ so that the FHLBank ■ hedge the interest rate risk associated with its proposed Y2K Advances Program. PROVIDED THAT the following conditions are met:

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- * The FHLBank's board of directors must approve the FHLBank's offering of the Program and the terms and conditions thereof:
- * **The Program will be initially limited to 100 percent** of the FHLBank [REDACTED] capital [REDACTED] however, the FHLBank may request an increase in this ratio, if necessary;
- * In addition to existing limitations imposed by the FMP exposure to any counterparty by virtue of investments made under the Program shall be limited to the lesser of 10 percent of the counterparty's Tier 1 capital (or tangible capital if Tier I is not available) or 10 percent of the FHLBank [REDACTED] capital;
- * The FHLBank shall have an advance commitment with an amount and take-down date matching the amount and maturity date of the investment, which must occur during the 4th quarter of 1999; the investments must mature on or before December 31, 1999;
- * The FHLBank shall place investments only with counterparties with both (1) long-term ratings of double-A or higher from Moody's or Standard and Poors or A/B or higher from Thomson Bankwatch, and (2) short-term ratings of P-1 from Moody's and A-1 from Standard and Poors;
- * To the extent that the FHLBank does not match fund the advance, it must advise the Finance Board's Office of Supervision of its hedging strategy;
- * The FHLBank shall require that a member not have an "unsatisfactory" Y2K rating from its primary regulator at the time it enters into the advance commitment, and that it have a "satisfactory" Y2K rating at the time it takes down the advance:
- 1 The FHLBank shall include a provision in the commitment documentation that it shall not be required to fund the advance at the time of take-down if the member does not meet all of the FHLBank's credit criteria at that time.

For the Board of Directors of the
Federal Housing Finance Board



Bruce A. Morrison
Chairman