



Federal Housing Finance Board

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February 8, 1996

Jonathan R. West, Esquire
 General Counsel
 Federal Home Loan Bank of Indianapolis
 P.O. Box 60
 Indianapolis, TN 46206

Re: Eligibility Of Municipal Bond Securities As Collateral To Secure Advances

Dear Mr. West:

Thank you for your letter of November 22, 1995 requesting the opinion of the Federal Housing Finance Board's (Finance Board) Office of General Counsel (OGC) as to whether the Federal Home Loan Banks (Banks) can accept municipal bonds as "other real estate-related" collateral eligible to secure advances under section 10(a)(4) of the Federal Home Loan Bank Act (Bank Act), 12 U.S.C. § 1430(a)(4), and section 935.9(a)(4) of the Finance Board's advances regulation, 12 C.F.R. § 935.9(a)(4). Thank you also for providing on, January 31, the single-family mortgage revenue bond prospectus. Although your letter of November 22 asks what would constitute an appropriate nexus to real estate such that municipal bonds generally would qualify as "other real estate-related" collateral, we understand from your subsequent telephone conversations with OGC staff that one of the Bank of Indianapolis' members is interested primarily in using municipal mortgage revenue bonds as collateral for advances.

Past practice and policy has been to interpret "other real estate-related" collateral as assets that are mortgage-related. For instance, the preamble to the final rule promulgating the Finance Board's advances regulation at part 935 states that section 10(a)(4) of the Bank Act permits "limited amounts of mortgage-related collateral otherwise ineligible under [section 10(a)(1)]." See *Id.* 58 Fed. Reg. 29456, 29462 (1993) (emphasis added). In addition, the specific examples of eligible collateral listed in section 935.9(a)(4) are all assets secured or backed by mortgages. ~~See~~ 12 C.F.R. § 935.9(a)(4). Under this traditional interpretation, municipal bonds that fairly could be characterized as "mortgage-related" would be acceptable as eligible "other real estate-related" collateral under section 935.9(a)(4). Because the structures of municipal bond issuances differ from state to state and from transaction to transaction, the question of whether a specific municipal bond issuance is mortgage-related will depend on the unique facts and circumstances of the particular deal.

We believe that the mortgage revenue bonds issued pursuant to the prospectus you recently provided to us would have the requisite connection to mortgages to be classifiable as "other real estate-related" collateral under the Bank Act. Whether the Bank of Indianapolis may accept as "other real estate-related" collateral any of the generic categories of municipal bonds listed in your letter is an issue that remains to be addressed by the Finance Board. Staff, in its ongoing review of collateral issues, will include the issue of the acceptability of non-mortgage related assets as "other real-estate related" collateral for Bank advances. In the meanwhile, you are encouraged to bring any additional specific proposals regarding municipal bonds as collateral to our attention for consideration on a case-by-case basis.

We appreciate the Bank's efforts to explore additional ways to achieve its mission. If you have any additional questions, please feel free to call me at (202) 408-2555, or Deborah Silberman at (202) 408-2570.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul J. Droet", with a long horizontal flourish extending to the right.

Paul J. Droet
General Counsel

cc: Rita I. Fair