year;'' and ''To comply with Federal law, we must use best efforts to obtain, maintain, and submit the name, mailing address, occupation and name of employer of individuals whose contributions exceed $200 per calendar year.''

(B) The following are examples of acceptable statements for authorized committees, but are not the only allowable statements: ''Federal law requires us to use our best efforts to collect and report the name, mailing address, occupation and name of employer of individuals whose contributions exceed $200 in an election cycle;'' and ''To comply with Federal law, we must use best efforts to obtain, maintain, and submit the name, mailing address, occupation and name of employer of individuals whose contributions exceed $200 per election cycle.''

(ii) The request and statement shall appear in a clear and conspicuous manner on any response material included in a solicitation. The request and statement are not clear and conspicuous if they are in small type in comparison to the solicitation and response materials, or if the printing is difficult to read or if the placement is easily overlooked.

(2) For each contribution received aggregating in excess of $200 per calendar year (or per election cycle, in the case of an authorized committee) which lacks required contributor information, such as the contributor's full name, mailing address, occupation or name of employer, the treasurer makes at least one effort after the receipt of the contribution to obtain the missing information. * * *

* * * * *

Dated: April 27, 2000.

Darryl R. Wold,

Chairman, Federal Election Commission.

[FR Doc. 00–10962 Filed 5–2–00; 8:45 am]

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FEDERAL HOUSING FINANCE BOARD

12 CFR Parts 900, 940, 950, 955 and 956

[No. 2000–20]

RIN 3069–AA98

Federal Home Loan Bank Acquired Member Assets, Core Mission Activities, Investments and Advances

AGENCY: Federal Housing Finance Board.

ACTION: Proposed rule.

SUMMARY: The Federal Housing Finance Board (Finance Board) is proposing to add a new part 955 to its regulations to authorize the Federal Home Loan Banks (Banks) to hold acquired member assets (AMA) and to amend its recently adopted part 940 to enumerate the types of core mission assets (CMA) that must be addressed in the Banks' strategic business plans. The Finance Board is also proposing related changes to its regulations governing the Banks' investment and advances authorities.

DATES: Comments on this proposed rule must be received in writing on or before June 2, 2000.

ADDRESSES: Comments should be mailed to: Elaine L. Baker, Secretary to the Board, by electronic mail at *bakere@fhfb.gov,* or by regular mail at the Federal Housing Finance Board, 1777 F Street, N.W., Washington, D.C. 20006. Comments will be available for public inspection at this address.

FOR FURTHER INFORMATION CONTACT: James L. Bothwell, Director and Chief Economist, (202) 408–2821; Scott L. Smith, Deputy Director, (202) 408–2991; Ellen E. Hancock, Senior Financial Analyst, (202) 408–2906; Christina K. Muradian, Senior Financial Analyst, (202) 408–2584, Office of Policy, Research and Analysis; or Eric M. Raudenbush, Senior Attorney-Advisor, (202) 408–2932; Office of General Counsel, Federal Housing Finance Board, 1777 F Street, N.W., Washington, D.C. 20006.

SUPPLEMENTARY INFORMATION:

I. Background

A. General

On November 12, 1999, the President signed into law the Federal Home Loan Bank System Modernization Act of 1999 (Modernization Act), *see* Title VI of the Gramm-Leach-Bliley Act, Public Law 106–102 (1999), which amended the Federal Home Loan Bank Act (Bank Act), 12 U.S.C. 1421 through 1449, among other things, to establish a new capital structure for the Banks, to authorize the Banks to accept additional types of collateral as security for advances, and to devolve to the Banks from the Finance Board full authority over their corporate governance, all subject to the rules and regulations of the Finance Board. In order to implement these and other statutory changes, the Finance Board has already adopted: a final rule devolving certain corporate governance authorities to the Banks, *see* 65 FR 13663 (March 14, 2000); an interim final rule conforming certain membership and advances requirements to the requirements of the Modernization Act, *see* 65 FR 13866 (March 15, 2000); a final rule setting forth a corporate governance framework for the Banks, which was published in the **Federal Register** on May 1, 2000; a final rule reorganizing the Finance Board's regulations to better accommodate the substantive regulatory changes, *see* 65 FR 8253 (Feb. 18, 2000); and a proposed rule that would amend the Finance Board's advances collateral regulation and make other related changes to the regulations. In addition, the Finance Board intends to adopt a proposed rule on risk management and capital during the second quarter of 2000. By statute, the Finance Board is required to publish a final rule on capital by November of 2000.

Under the revised Bank Act and the new regulations, each Bank will have authority to engage in a wider range of asset activities than in the past, will have more discretion in establishing its capital structure, and will have more freedom to operate its business without the day-to-day involvement of the Finance Board. As the agency charged by Congress with the duty to ensure that the Banks carry out their statutory mission, see 12 U.S.C. 1422a(a), the Finance Board believes that it is especially important to keep the Banks focused on their mission as they exercise their expanded statutory and regulatory authorities. To this end, the Finance Board's recently-adopted final governance rule requires that each Bank's board of directors have in place at all times a strategic business plan that describes how the Bank's business activities will achieve the mission of the Bank (to be codified at 12 CFR 917.5). In order to clarify this requirement, the Finance Board established in its regulations a new part 940, which, in § 940.2 defines the ''mission of the Banks'' as providing to members and associates financial products and services, including but not limited to advances, that assist and enhance such members' and associates financing of: (a) Housing, including single-family and multifamily housing serving consumers at all income levels; and (b) community lending. This definition of the mission of the Banks and the regulatory provisions that implement it are intended to ensure maximum use of the cooperative structure of the Bank System to provide funds for housing finance and community lending.

In order to further clarify the strategic business planning requirement, this proposed rule would enumerate in regulation those specific Bank activities that the Finance Board considers to be ''core mission activities'' (CMA); that is, those activities that are within the

authority of the Banks to undertake that are most central to the achievement of the Banks' mission.

The addition of a CMA provision at this time will also help each Bank in developing and implementing its new capital structure plan, which, under the Modernization Act, must be submitted to the Finance Board for approval within 270 days after the promulgation of the Finance Board's final capital regulation. As required in the Modernization Act, the forthcoming capital rule will implement a risk-based capital requirement and new leverage requirements that will be supported by new classes of stock, one of which will be considered permanent capital. To accomplish the transition to the new capital structure, the Modernization Act also requires each Bank to develop and submit for Finance Board approval its capital structure plan. The design of each Bank's plan, as well as the Bank's ability to sell equity to its members under its new capital structure, will depend on its projections of Bank business activities and income, which should conform to the Bank's strategic business plan. Because a Bank will need to address mission activities in its strategic business plan, the CMA definition will also be an important consideration in the drafting of the capital structure plan. Therefore, the Finance Board has determined that it is necessary for CMA to be defined prior to the Banks' drafting of their strategic business plans.

In addition, the proposed rule would codify in regulation the Banks' authority to hold acquired member assets (AMA)—that is, whole loans eligible as collateral for Bank advances that may be acquired from Bank members or associates. This authority would be an expansion and refinement of the Banks' existing authority (granted by resolution of the Finance Board) to establish programs under which they acquire mortgage assets from members, while sharing with the member the credit risk associated with the loans. Because AMA would constitute a core mission activity, it is logical for the Finance Board to set forth in regulation the parameters for such acquisitions at this time.

Finally, the proposed rule would codify new regulations regarding the investment and advances authorities of the Banks so that the Banks will have full regulatory authority to engage in CMA.

B. Bank Investment Practices as Related to the Definition of CMA

Consolidated obligations (COs) issued under section 11 of the Bank Act, 12 U.S.C. 1431, are the primary source of funding for the Banks. COs are debt instruments issued in the global capital markets for which the twelve Banks are jointly and severally liable. Because of the Banks' status as government-sponsored enterprises (GSEs), the costs to the Banks of obtaining such funding are substantially less than the borrowing costs to other entities for issuing comparable debt. The Banks pass the benefit of this funding advantage to their members, primarily through wholesale loans (called advances) priced lower than the members could otherwise obtain to provide support for housing finance and community lending, in fulfillment of the Banks' mission. Prior to enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), Public Law 101–73, 103 Stat. 413 (1989), which amended the Bank Act in response to the savings and loan crisis of the 1980s, the Banks used all of their COs to fund advances, thus directly using their GSE funding advantage to meet their mission of enhancing the availability of housing finance.

In large part due to the financial burdens imposed on the Banks as a result of the savings and loan crisis and the enactment of FIRREA, the Banks began in 1991 to use a portion of the proceeds from COs to finance investments—primarily money market investments and mortgage backed securities (MBS)—bearing little or no relation to the Banks' public purpose. Of these investments, MBS have been appreciably more profitable per dollar invested than money market investments.

The Finance Board initially limited MBS investment by the Banks in part because of concern about the Banks' ability to manage the interest rate and options risk associated with these assets. However, now that the Banks have developed more effective techniques for hedging these risks, and there are policy limits in place constraining the Banks' interest rate risk exposure, the MBS limit can be viewed less as a safety and soundness constraint and more as a means to restrain a non-mission-related activity. MBS generally are traded in large, well-established and liquid markets. As such, it is the view of the Finance Board that the Banks' presence in these markets does not result in increased availability of funds for housing, or in a lower cost of funds. Moreover, and perhaps most importantly for the Finance Board, the Banks' MBS investments generally do not involve the Banks working with or through Bank System members and thus do not contribute to the cooperative nature of the Bank System as do advances and certain other financial products and services offered by the Banks. Thus, although MBS are housing-related, the extent to which these investments support the Banks' housing finance mission is debatable.

The increase in investments not directly related to the Banks' public purpose was a rational response to the sharp fall-off in Bank System advances and net income that occurred as a result of the savings and loan crisis. As a percentage of total assets, the level of such non-mission-related investments rose substantially in the early 1990s, but has begun to decline appreciably in recent years as the membership base of the Bank System and the level of advances outstanding to members have increased. Investments represented 29 percent of Bank System assets at the end of 1999 compared with 50 percent at year-end 1995.

Bank System earnings and advances are now at record levels. Outstanding advances, surpassing the previous all time high of $167 billion in the second quarter of 1997, reached $396 billion at year end 1999. Net income has steadily increased to $2.1 billion in 1999 after dropping to a recent low of $850 million in 1992. In addition, although the Banks initially increased investments as a substitute for declining advances, Bank investments generally have increased since 1992 along with advances. Investments increased over 100 percent, from $79 billion to $171 billion, between 1992 and 1999. To some extent, the Finance Board has viewed this growth as a means to compensate for a trend toward lower spreads on advances due to increased funding competition from other sources.

However, given its duty under the Bank Act to ensure that the Banks carry out their housing finance mission, *see* 12 U.S.C. 1422a(a)(3)(B)(ii), the Finance Board has been concerned for some time that the Banks have used substantial amounts of the proceeds of their COs to finance arbitrage investments. Once the Banks' ability to generate income had demonstrably improved, the Finance Board initiated steps to address the Bank System-wide growth of non-mission-related investments. A first step was to recognize that, while the detailed list of restrictions and limits placed on the Banks' investment authority by the Federal Home Loan Bank System Financial Management Policy (FMP) [1] successfully ensured the safety and soundness of the Banks, the FMP provided little, if any, flexibility or

[1] The FMP is a non-codified policy of the Finance Board that governs Bank investments and other financial management matters.

incentive for the Banks to seek out and develop new assets and activities that are permissible under the Bank Act and that, because they assist and enhance member lending for housing finance, are consistent with the mission of the Bank System.

To address this lack of flexibility, the Finance Board amended the FMP in 1996 to permit the Banks, among other things, to engage in new activities designed in part to add to their balance sheets higher yielding, yet mission-related, assets that would also preserve and promote the cooperative nature of the Bank System. *See* FMP, section II.B.12. The first such activities were approved on a pilot program basis in 1996 and 1997 and have been in operation since then. After several years of experience with these pilot programs, the Finance Board approved a more general authorization for Bank acquisition of single-family mortgage assets, which required that these programs involve credit risk-sharing with members in order to promote the cooperative nature of the Bank System. *See* Finance Board Res. No. 99–50 (Oct. 4, 1999), and Finance Board Resolution No. 99–66 (Dec. 14, 1999).

Part 955 of the proposed rule would refine and expand these authorities by authorizing the Banks to hold AMA. As proposed in part 955, AMA transactions would enhance the cooperative nature of the Bank System by allocating the risk components of the transaction between the member and the Bank according to the ability of each to manage such risk. Specifically, members are best suited to manage credit risk, because they are most familiar with their customers and the local market. Accordingly, under the general risk-sharing structure set forth in part 955 of the proposed rule, members would maintain their traditional customer relationships, including marketing, servicing, underwriting and managing credit risk. Because the Banks are capital market experts and have more ready access to these markets, they would be responsible for managing liquidity, interest rate, and options risks under proposed part 955. It is anticipated that expansion of these AMA activities will permit the Banks to reduce their holdings of money market investments and MBS, while providing an adequate return on investment of shareholder capital.

A second major step taken by the Finance Board to address concerns about the Bank System-wide growth of non-mission-related investments was the publication of a proposed Financial Management and Mission Achievement (FMMA) rule. *See* 64 FR 52163 (Sept. 27, 1999). Among other things, the proposed FMMA rule would have established mission-related regulatory standards, including a definition of CMA and a CMA-to-COs percentage requirement. The Finance Board withdrew the proposed FMMA rule following enactment of the Modernization Act, as certain provisions of the FMMA rule, as proposed, would no longer meet the requirements of the Bank Act as amended.

C. Comments Received on the Proposed FMMA Rule Related to the Core Mission Definition and Requirement

Prior to and following the withdrawal of the proposed FMMA rule, the Finance Board received 19 comments on the provisions of the proposal that related to mission achievement: six from Banks, four from Bank members, four from trade associations, two from community groups, one from a Bank Affordable Housing Advisory Council, one from a state housing finance agency and one from a private sector individual. In general, the comments expressed concerns about the mission provisions of the rule. The comments from the Banks, Bank members and several trade associations primarily focused on their opposition to two provisions related to CMA: (1) A requirement that, following a transition period, each Bank maintain an annual average ratio of at least 100 percent of CMA to the book value of the Bank's total outstanding COs; and (2) a limitation on the dollar amount of advances to members with assets of greater than $500 million that would count as CMA. Neither of these provisions is included in this proposed rule.

The Banks, Bank members and several trade associations also opposed the general exclusion of MBS as a core mission activity in the proposed FMMA rule. Several commenters argued that it is not within the province of the Finance Board to determine that investment in MBS is not part of the mission of the Banks. To the contrary, the Bank Act authorizes the Finance Board to supervise the Banks and to promulgate and enforce such regulations and orders as are necessary from time to time to carry out the provisions of the Bank Act. *See* 12 U.S.C. 1422b(a)(1). Among the provisions of the Bank Act are those outlining the duties of the Finance Board, which include the duty to ensure that the Banks carry out their housing finance mission. *See id.* § 1422a(a)(3)(B)(ii).

Because Congress has not expressly defined the parameters of the Banks' housing finance mission, it is the responsibility of the Finance Board—as the body charged with the duty to ensure that the Banks fulfill that mission and, more generally, as the supervisory regulator of the Banks and the agency charged with the administration of the Bank Act—to make this judgment reasonably considering both empirical evidence and the provisions of the Bank Act.

As discussed above, the MBS markets are large, well-established and liquid and the Finance Board has been presented with no evidence that the Banks' presence in these markets generally results in increased availability of funds for housing or reduces the cost of funds. Additionally, these investments generally do not involve working with or through Bank System members and, therefore, do not contribute to the cooperative nature of the Bank System. As a result, the Finance Board has chosen to continue to exclude MBS from the definition of core mission activities in this proposed rule.

Several Banks, one Bank Affordable Housing Advisory Council, one trade association and one state housing finance agency expressed concerns about the ability of housing finance agencies to meet the requirements necessary for housing finance agency (HFA) bonds to count as CMA under the proposed FMMA rule. It is the judgment of the Finance Board that HFA bonds that are acquired from a Bank System member or associate have the characteristics of AMA. Accordingly, under this proposed rule, HFA bonds qualify as AMA and, thus, also as CMA. The Finance Board has attempted to address these comments regarding HFA bonds in drafting proposed part 955 (see the discussion of part 955 below) explaining under what conditions HFA bonds meet the requirements of AMA and therefore qualify as CMA.

Two community groups supported the targeted equity investments included as CMA in the proposed FMMA rule and suggested that the authority should be expanded to include a wider range of investments. The Finance Board has expanded the targeted investments that qualify as CMA in this proposed rule to include certain debt investments, as well as equity investments. The private sector commenter described an investment vehicle that he felt would assist the Banks in making investments in small business investment companies formed pursuant to 15 U.S.C. 681(d) (SBICs) included as CMA in the proposed FMMA rule. These comments

were considered by the Finance Board in drafting this proposed rule.

The Finance Board invites anyone with an interest in this proposed rule, including all those who commented on the proposed FMMA rule, to submit written comments to the Finance Board during the comment period.

II. Analysis of Proposed Rule

A. Core Mission Activities—Part 940

The proposed rule would define the on- and off-balance sheet items that the Finance Board has determined qualify as CMA for the Banks. The Finance Board would define CMA at this time in order to clarify for the Banks the types of business activities that the Finance Board considers to be consistent with maximizing the public benefit of the Banks' GSE status and to aid the boards of directors of the Banks in the strategic planning required of them under new § 917.5 of the regulations.

Section 940.1 of the proposed rule would set forth definitions of terms used in part 940. These terms are discussed below as they relate to the substantive provisions of the proposed rule.

1. Advances as CMA—§ 940.3(a)(1)

Proposed § 940.3 lists those Bank activities that would qualify as CMA. Under proposed § 940.3(a)(1), all Bank advances would qualify as CMA.

2. Acquired Member Assets as CMA—§ 940.3(a)(2)

Under proposed § 940.3(a)(2), all AMA held pursuant to proposed part 955 (discussed in detail below) would qualify as CMA except for United States government-insured or guaranteed whole single-family residential mortgage loans [2] acquired under a commitment entered into after April 12, 2000. These loans would qualify as CMA only in a dollar amount up to 33 percent of the total dollar amount of AMA (not including government-insured or guaranteed whole single-family residential mortgage loans acquired under a commitment entered into on or before April 12, 2000) acquired by a Bank during each calendar year. For the year 2000, this calculation would be made on a pro-rata basis, based only on transactions occurring after April 12, 2000.

In recognition of the fact that many Banks do, and will in the future, hold participation interests in AMA originally acquired by other Banks, the proposed rule would permit one or more Banks to make the above-described calculation by aggregating both the total and government-insured AMA on their respective balance sheets. Naturally, under this provision, a Bank may include itself in only one such aggregated calculation in any calendar year.

The Finance Board recognizes that both conventional and government-insured or guaranteed residential mortgage loans are within the parameters established for AMA. However, in order to provide incentive for the Banks to maintain a broad focus that encompasses acquisition of significant amounts of conventional loans, the Finance Board is permitting Banks to count as CMA one dollar of government-insured AMA for every two dollars of conventional loans acquired as AMA.

The distribution of the Banks' current mortgage portfolio suggests that a high percentage of government-insured loans have been acquired when compared to the percentage of such loans in the total mortgage market. The proposed rule would encourage the Banks to see to it that the composition of their mortgage portfolios more closely reflects the distribution of loans made in the marketplace. This provision is intended to reduce the emphasis on government-insured loans that currently exists in the Banks' mortgage portfolio and to provide an incentive for Bank acquisition of conventional mortgages, which was the original intent of the Bank mortgage acquisition programs approved by the Finance Board over the last several years.

3. Letters of Credit and Intermediary Derivative Contracts as CMA—§§ 940.3(a)(3) and (a)(4)

Under proposed §§ 940.3(a)(3) and (a)(4), standby letters of credit (SLOCs) and intermediary derivative contracts (primarily interest rate swaps), respectively, would qualify as CMA.

4. Targeted Debt and Equity Investments as CMA—§ 940.3(a)(5)

Under proposed § 940.3(a)(5)(i), non-securitized debt investments and equity investments that primarily benefit low- or moderate-income households or areas targeted for redevelopment by local, state, tribal or Federal government (including Federal empowerment zones and enterprise and champion communities) would be considered to be CMA if the investment provides or supports: affordable housing; economic development; community services; permanent jobs for members of low- or moderate-income households; or area revitalization or stabilization. This list of investments is drawn primarily from the Office of the Comptroller of the Currency's regulatory definition of public welfare investments that are permitted for national banks. *See* 12 CFR 24.3(a). Examples of investments that would qualify as CMA under proposed § 940.3(a)(5)(i) include, among other things, stock in Community Development Financial Institutions (CDFIs), and secondary capital in community development credit unions. Part 956 of the proposed rule (discussed in detail below) would authorize the Banks to make such targeted investments.

For purposes of proposed § 940.3(a)(5)(i), a low- or moderate-income household is defined to mean a household with an income that is at or below 115 percent of the area median income, as published by the Department of Housing and Urban Development (HUD). Defining low- or moderate-income as no more than 115 percent of area median income is consistent with the low- or moderate-income targeted beneficiaries of other Finance Board housing and community lending programs as set forth in the Community Investment Cash Advance (CICA) Programs regulation. *See* 12 CFR 952.3.

Proposed § 940.3(a)(5)(ii) would require that these targeted non-securitized debt investments and targeted equity investments involve one or more members or associates in a manner, financial or otherwise, and to a degree to be determined by the Bank. For instance, a Bank could determine at a minimum that a member's or associate's sponsorship of a nonprofit or other community-based partner seeking an investment constitutes sufficient involvement for purposes of this section. Another Bank may require a greater degree of member or associate participation, including financial participation, at the Bank's discretion. This requirement is designed to promote the cooperative nature of the Bank System, yet provide flexibility to the Bank in making such targeted investments.

Because proposed § 940.3(a)(5)(i) specifies that targeted investments that count as CMA must be non-securitized debt investments, investments in mortgage-backed and other asset-backed securities would not count as CMA even if such securities appear to meet the other requirements of proposed § 940.3(a)(5). For example, the loans in collateral pools for MBS securitized by loans made pursuant to the Community Reinvestment Act (CRA MBS) provide affordable housing for low- or moderate-

[2] Whole single family residential mortgage loans insured by the United States government consist of loans insured by the Federal Housing Administration (FHA), guaranteed by the Veterans Administration (VA) and insured by the Rural Housing Service (RHS).

income households. However, the characteristics of and market for CRA MBS are very similar to the characteristics of and market for other MBS. As discussed above, although MBS are housing-related, the extent to which these investments support the Banks' housing finance mission is debatable given the large, well-established and liquid markets in which they trade. Moreover, MBS investments generally do not involve the Banks working with or through their members and thus do not contribute to the cooperative nature of the Bank System. However, the Finance Board realizes that there are some mortgage-backed or asset-backed securities that should be granted CMA status under proposed § 940.3(a)(5)(i) based upon a determination that a Bank's purchase of such securities would substantially contribute to opening an underserved market that would not otherwise be reached by the private sector. The Finance Board's goal is to characterize as CMA those mortgage-backed and asset-backed securities that substantially contribute to opening an underserved market that would not otherwise be reached by the private sector, while at the same time not characterizing as CMA those securities that are already traded in large, well-established and liquid markets. The Finance Board invites comment on an appropriate standard for distinguishing between mortgage-backed or asset-backed securities that do substantially contribute to opening underserved markets and those that do not.

The Finance Board supports the use of private capital to meet the needs of underserved markets, communities and areas and encourages the Banks to consider making targeted investments as described in proposed § 940.3(a)(5). It is anticipated that each Bank could accumulate $10 million to $30 million of such investments, depending on the size of the Bank, for a Bank System-wide total of approximately $200 million in targeted investments. Any such investment by a Bank would be subject to the new business activity requirements of proposed part 980 (which is included in the Finance Board's recently-adopted proposed rule on advances collateral, and which is discussed in more detail below), and the requirements of the risk-based capital rule to be proposed shortly by the Finance Board. Specifically, it is anticipated that, in the forthcoming capital rule, the Finance Board will assign the same capital treatment under its risk-based capital requirement for targeted investments that is assigned to public welfare investments for national banks. However, should the Banks acquire more than $200 million of such targeted investments, or should any one Bank acquire more than the $10 million to $30 million of such targeted investments, the Finance Board might consider imposing a higher capital charge for additional amounts.

Since the proposed targeted investment authority is new, the Finance Board specifically requests comment on any impediments the Banks may face in making targeted investments and how the Finance Board might assist in reducing such impediments.

5. Stock in SBICs as CMA—§ 940.3(a)(6)

Under proposed § 940.3(a)(6), investments in SBICs formed pursuant to 15 U.S.C. 681(d) would qualify as CMA to the extent that the investment is structured to be matched by an investment in the same SBIC by a member or associate of the Bank making the investment in the SBIC. Investment in such SBICs is explicitly authorized under section 11(h) of the Bank Act, 12 U.S.C. 1431(h), and under part 956 of the proposed rule, to the extent that such investments are for the purpose of aiding members. The member matching requirement will be deemed to satisfy the statutory requirement that Bank investments in SBICs be for the purpose of aiding members.

6. Other CMA Investments—§ § 940.3(a)(7), (a)(8) and (a)(9)

Three other specific investments would qualify as CMA under proposed § § 940.3(a)(7), (a)(8) and (a)(9): The short-term tranche of SBIC securities guaranteed by the Small Business Administration (SBA); Section 108 Interim Notes and Participation Certificates guaranteed by HUD pursuant to section 108 of the Housing and Community Development Act of 1974 (as amended), 42 U.S.C. 5308; and investments and obligations for housing and community development issued or guaranteed under Title VI of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA), 25 U.S.C. 4191 through 4195. These investments are all related to housing and community lending and supported by various government programs at the federal level. The Finance Board proposes to treat these investments as CMA because of their potential to move the private markets to better assist low- and moderate-income communities to become more prosperous. By treating these investments as CMA, the Finance Board would be intentionally creating a greater incentive for the Banks to make these investments.

The Finance Board specifically requests comment on whether any other investment instruments that are products of federal programs designed to support housing and community lending programs, should also be included as CMA.

7. Status of MBS and HFA Bonds Acquired Under the FMP—§ 940.3(b)

As discussed previously, the proposed rule would neither prohibit the Banks from making any investments that they are currently permitted to make under the FMP, nor restrict the extent to which the Banks may fund any particular investments with the proceeds of COs. Proposed § 940.3(b) would make clear that, should the Finance Board enact any such prohibitions or restrictions at some future date, the agency will not limit the authority of a Bank to hold to maturity, or fund with the proceeds of COs, any investments made under sections II.B.8., 9., 10. or 11. of the FMP on or before April 12, 2000 (the date the Finance Board adopted this proposed rule), except as may be necessary to ensure the safety and soundness of the Banks.

These investments include: agency and highly-rated private MBS; highly-rated securities backed by manufactured housing or home equity loans; and state or local HFA bonds. While HFA bonds issued by, through, or on behalf of a member or associate will qualify as AMA under proposed part 955 (and, thus, also as CMA), those that are issued by, through, or on behalf of outside parties do not so qualify. Although, under part 956 of the proposed rule, Banks may continue to invest in nonmember or associate-related HFA bonds, these would not qualify as CMA. Similarly, neither MBS, nor securities backed by manufactured housing or home equity loans, would qualify as CMA under the proposed rule.

B. Advances to Out-of-District Members and Associates—§ 950.18

The proposed rule would add to the Finance Board's advances regulation a new § 950.18, which would govern Bank creditor relationships with out-of-district members and associates. Proposed § 950.18(a) would expressly permit a Bank to purchase an outstanding advance, or a participation interest therein, from another Bank, or to establish a debtor/creditor relationship with a Bank System member or associate in another district at the time an advance is made, subject to an arrangement with the member's or associate's local Bank. Proposed

§ 950.18(b) would make clear that any debtor/creditor relationship established pursuant to § 950.18(a) would be subject to all of the appropriate advances requirements of part 950. The Finance Board is proposing this addition to its regulations at this time in order to make explicit the parallel treatment of advances and AMA transactions, in which Banks may engage as an incidental aspect to their advances authority.

C. Acquired Member Assets—Part 955

Part 955 of the proposed rule addresses AMA—that is, assets that a Bank may acquire from or through its members or associates in a transaction that is in purpose and economic substance functionally equivalent to the business of making advances in that: (1) It allows the member or associate to use its eligible assets to access liquidity for further mission-related lending; and (2) all, or a material portion of, the credit risk attached to the assets is being borne by the member or associate.

Proposed § 955.1 would set forth definitions of terms used in part 955. These are discussed below in the context of the substantive provisions.

1. Authorization to Hold AMA—§ 955.2

Section 955.2 of the proposed rule generally would authorize each Bank to hold AMA acquired from or through Bank System members or associates, either by a purchase or a funding transaction, subject to the procedural new business activity requirements contained in proposed part 980 (which was proposed as part of the Finance Board's recently-adopted proposed rule on advances collateral and is described in more detail below). Proposed § 955.2 would also set forth a three-pronged test to be used in determining which assets qualify as AMA.

First, under proposed § 955.2(a), whole loans that are eligible to secure advances to members under the Finance Board's proposed advances collateral regulation (proposed to be codified at § 950.7), could qualify as AMA. These assets include: (1) Fully disbursed, whole first mortgage loans on improved residential real property not more than 90 days delinquent; (2) mortgages or other loans, regardless of delinquency status, to the extent that the mortgage or loan is insured or guaranteed by the U.S. or any agency thereof, or otherwise backed by the full faith and credit of the U.S.; (3) other real estate-related whole loans, provided that such loans have a readily ascertainable liquidation value and can be freely liquidated in due course and the Bank can perfect a security interest therein; and (4) when acquired from community financial institutions (CFIs) only, small business, small farm or small agri-business loans fully secured by collateral other than real estate, or securities representing a whole interest in such loans, provided that such loans have a readily ascertainable liquidation value and can be freely liquidated in due course and the Bank can perfect a security interest in such loans. Under this provision, single-family mortgages where the loan amounts exceed the conforming loan limits that apply to the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), *see* 12 U.S.C. 1717(b)(2), could not qualify as AMA. In addition, loans made to an entity, or secured by property, not located within a state of the United States, the District of Columbia, American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, Puerto Rico, or the U.S. Virgin Islands could not qualify as AMA.

In addition, under proposed § § 955.2(a)(2) and (3), whole loans secured by manufactured housing, regardless of whether such housing qualifies as residential real property, and state and local HFA bonds, respectively, could qualify as AMA. While manufactured housing loans may under some circumstances qualify as ''other real estate-related'' collateral eligible to secure advances, the Finance Board has chosen to list such loans explicitly in proposed § 955.2(a) in order to make clear that such loans could qualify as AMA.

Second, under proposed § 955.2(b), an asset must have some connection with a Bank System member or associate in order to qualify as AMA—*i.e.,* there must be a member or associate nexus. Specifically, proposed § 955.2(b)(1) would require that the asset be either: (i) Originated (if a loan) or issued (if a bond) by, through, or on behalf of a member or associate, or affiliate thereof; or (ii) held for a valid business purpose by the member or associate, or affiliate thereof, prior to acquisition by a Bank. The reference in the proposed rule to assets issued ''through, or on behalf of'' a member, associate or affiliate is intended to encompass HFA bonds issued by an underwriter for the member, associate or affiliate.

The valid business purpose requirement is intended to account for the fact that a member may acquire loans from a nonmember during the normal course of business and then sell those loans to the Bank. The reference to a ''valid business purpose'' is intended to exclude any loans that are passed from a nonmember through a member to a Bank with the intent to extend the benefits of Bank membership to the nonmember.

Under proposed § 955.2(b)(2), the assets must be acquired from either: (i) A member or associate of the Bank acquiring the assets; (ii) a member or associate of another Bank, pursuant to an arrangement with that Bank; or (iii) another Bank. Under the proposed rule, a Bank could acquire initial-offering taxable HFA bonds from out-of-district associates, provided that the Bank has an agreement with the associate's district Bank granting permission to make such acquisitions.

Third, under proposed § 955.2(c), the member or associate must meet the credit risk-sharing sharing requirements that are detailed in proposed § 955.3. As an exception to this requirement, the Finance Board would consider assets acquired under authorizations adopted by the Finance Board pursuant to section II.B.12. of the FMP to qualify as AMA, up to the total dollar cap contained in those authorizations, even if the transactions do not meet the credit risk-sharing requirements of proposed § 955.3.

2. Required Credit Risk-Sharing Structure—§ 955.3

Section 955.3 of the proposed rule would elaborate upon the credit risk-sharing requirement that is the third prong of the AMA test set forth in proposed § 955.2. The risk-sharing requirements proposed in § 955.3 are based on risk-sharing structures that have evolved over time and are currently in place at the Banks. Since the first approval of the Federal Home Loan Bank of Chicago's Mortgage Partnership Finance (MPF) pilot program in late 1996, the Banks have gained experience in the acquisition of single-family mortgage assets and the Finance Board has gained experience in monitoring such acquisitions. Commensurate with this increased expertise, the Finance Board authorized an expanded scope of mortgage purchase activity in Resolution No. 98–41 (Sept. 23, 1998), which permitted all Banks to offer MPF, or substantially similar programs, to their members on a pilot basis. Later, to accommodate member needs concerning capital requirements, the Finance Board authorized an alternative risk-sharing structure in Resolution No. 99–50 (Oct. 4, 1999). With this approval, members were able to share a portion of the credit risk associated with mortgage lenders, through the use of supplemental loan-level insurance. By purchasing mortgage insurance to cover a portion of the

credit risk, members receive more favorable capital treatment.

Through the credit risk-sharing requirement, AMA activities would serve to promote and preserve the basic business relationship between the Banks and their members that has been established and maintained throughout the history of the Bank System through advance transactions. The Bank would manage the interest rate risk, while the member would manage a material portion of the credit risk. This requirement emphasizes the cooperative nature of the Bank System by ensuring that the member or associate shares with the Bank the financial benefits and responsibilities of the asset. Based on the totality of its experience in monitoring the Banks' mortgage purchase programs, the Finance Board is confident that the credit risk-sharing requirements set forth in proposed § 955.3 would efficiently allocate risks so as to best use the core competencies of the entities involved and provide capital market funding and risk management alternatives, all to the ultimate benefit of the consumer.

Under proposed § 955.3(a)(1), a Bank would be required to determine, at the time of acquisition of member assets: (i) The expected credit losses on the asset or pool of assets; and (ii) the total credit enhancement that is necessary to raise the asset or pool of assets to at least the fourth highest credit rating category, or such higher credit rating as the Bank may require. At a minimum, at the time of acquisition, each asset or pool of assets would be required to have an estimated credit rating of at least the fourth highest rating category. However, the Bank may choose to require that individual pools of assets have a credit rating above the fourth highest rating category.

Under proposed § 955.3(a)(2), the Bank's estimates of the expected credit losses and total credit enhancements would be required to be calculated using a methodology that is confirmed in writing by a Nationally Recognized Statistical Rating Organization (NRSRO) to be comparable to a methodology that an NRSRO would use in conducting a formal rating review of the assets or pools of assets. Requiring that the methodology used to determine expected credit losses and credit enhancements be affirmed by an NRSRO would ensure that the Bank's estimates of credit ratings are reasonably accurate. The methodology used to estimate the expected credit losses and credit enhancements would be required to produce roughly the equivalent rating, or equivalent ratings on average, to a formal rating review of the assets or pools of assets. Given that an NRSRO conducting a formal rating of an asset or pool of assets may take into account qualitative factors that may not be considered by a theoretical model, the estimate of expected credit losses and credit enhancement by a Bank would not be required to be identical to that determined by an NRSRO. However, the estimate must produce approximately the equivalent rating.

Second, under proposed § 955.3(b), a Bank would be required to determine a credit risk-sharing structure to be entered into with its member or associate that both: (1) Enhances the asset or pool of assets to at least the fourth highest credit rating category, or such higher credit rating as required by the Bank; and (2) incorporates credit risk-sharing with the member or associate.

When establishing an AMA program, the credit enhancement structure would be required to be designed in such a way that it at least supports the asset or pool of assets to the fourth highest credit rating category or such higher credit rating as required by the Bank. More specifically, if the Bank acquires a member asset and requires, for example, the second highest rating, the methodology used to assign financial responsibilities to support that rating would be required to conform to a structure that has been confirmed in writing by an NRSRO as sufficient to achieve the desired rating. For example, one factor that may be considered in determining the methodology used under a credit enhancement structure may be the order in which credit losses are allocated among entities. If a Bank makes modifications to a credit enhancement structure that is already in place, it would be required to obtain written confirmation from an NRSRO that the new structure is sufficient to achieve the desired rating.

At the same time that a Bank determines a credit enhancement structure that supports the credit rating of an asset or pool of assets, the Bank would be required to implement a credit risk-sharing structure with the member or associate from which the Bank acquired the asset or pool of assets. The proposed rule would require that the risk-sharing structure be established in one of two ways: (i) The member or associate from which the Bank acquired an asset or pool of assets directly bears the economic consequences of all credit losses in excess of expected losses up to the fourth highest credit rating or such higher credit rating as required by the Bank; or (ii) the member or associate from which the Bank acquired an asset or pool of assets directly bears the economic consequences of all credit losses up to the amount of expected losses, and the member or associate assumes responsibility for additional credit losses as is necessary to enhance the asset or pool of assets to the fourth highest credit rating category, or such higher rating as required by the Bank.

Under either structure, expected losses would have to be estimated by a Bank as required pursuant to proposed § 955.3(a). In other words, the Bank would need to determine the expected losses on an asset or pool of assets using a methodology that is confirmed in writing by an NRSRO to be comparable to a methodology that an NRSRO would use in conducting a formal rating review of an asset or pool of assets.

Recognizing that advantages exist under each structure, the Finance Board is proposing that the Banks be given flexibility to offer products or programs under either of the structures. However, any combination of the requirements set forth in the two separate structures would be prohibited. Under both of these structures, members would directly bear the responsibility for a material portion of credit risk, whether it is borne as expected losses or in excess of expected losses. By allowing the flexibility to use either structure, members would be able to choose the program that best suits their needs. Under the first structure, the member would bear a larger portion of credit risk. Under the second structure, the member would be responsible for the first layer of losses, thereby linking the member's compensation to the credit quality of the asset.

Under the first structure, the member or associate from which a Bank acquired an asset or pool of assets would be required to bear directly the economic consequences of all credit losses in excess of expected losses. The Bank could bear economic responsibility for the expected credit losses on an asset or pool of assets. In general, expected credit losses are roughly ten percent of the credit enhancement necessary to raise the asset or pool of assets to the second highest credit rating. Under this structure, the Bank would bear responsibility for a relatively small amount of credit losses and the member would take on the relatively larger amount of credit risk. Under the second structure, the member or associate would directly bear responsibility for the expected losses but the larger portion of credit risk may be allocated among different entities. Under the second structure, only the member or associate from which the Bank acquired an asset or pool of assets would be permitted to bear directly the economic

responsibility of all credit losses up to an amount at least equal to the expected credit losses on an asset or pool of assets. The Bank would not be permitted to bear the economic responsibility for the expected credit losses on a given asset or pool of assets. Also, neither affiliates of members or associates that may have originated or held for a valid business purpose an asset or pool of assets, nor any other member or associate in the Bank's district could bear the economic responsibility of expected credit losses on an asset or pool of assets. The member or associate itself would be required to bear the economic responsibility of the expected credit losses to ensure member or associate involvement and to ensure that the member or associate bears the consequences of the credit quality of the asset or pool of assets.

The economic responsibility of the expected credit losses may be borne by the member or associate in a variety of ways. For instance, under the product developed by the Federal Home Loan Bank of Chicago known as MPF 100®, a Bank establishes an account to absorb credit losses. As the Bank incurs losses, it is reimbursed by the member through the reduction of credit enhancement fees paid to the member by the Bank. Essentially, the fees paid to the member are contingent upon the performance of the asset.

The Finance Board has determined that expected credit losses are typically of sufficient size that members or associates, when responsible for such losses, have incentive to seek ways to achieve better than expected performance. In the case of acquiring mortgage loans, by requiring that the member or associate bear economic responsibility for expected credit losses, a system of risk and reward is established that is based on the core competencies of the participating institutions. Since member financial institutions are most knowledgeable regarding their local housing markets, this structure allows members the opportunity to benefit from their expertise in underwriting mortgage loans in their communities. The credit risk sharing structure is based on the concept that different institutions have different capacities. The Banks are capital market specialists, with the ability to bear market risks well, while depository institutions are experts in credit risk evaluation since they know their communities best. Therefore, by establishing a structure where the member or associate from which the Bank acquired the asset or pool of assets bears economic responsibility for the amount of the expected credit losses, members or associates are rewarded for their credit risk management expertise.

In addition to the member or associate from which the Bank acquired an asset or pool of assets bearing the economic responsibility of credit losses up to the amount of expected credit losses, the member or associate from which the Bank acquired an asset or pool of assets would be required to provide for additional credit loss coverage such that the member's or associate's total credit enhancement responsibility (*i.e.*, expected credit losses plus additional credit loss coverage) is sufficient to achieve at least the fourth highest credit rating, or such higher rating as required by the Bank. The additional credit loss coverage would have to be provided by the member or associate from which the Bank acquired the asset or pools of assets, but under proposed § 955.3(b)(2)(ii)(B), the member or associate may allocate the additional credit loss coverage responsibility in whole or in part, and in any combination, among: (1) The member or associate itself; (2) any other member or associate in the Bank's district; and (3) loan-level insurance, including U.S. government insurance or guarantee.

It would be the responsibility of the member or associate from which the Bank acquired the asset or pool of assets to determine the allocation of the additional credit loss coverage among itself, any other member or associate in the Bank's district and any insurer. If loan-level insurance is used, proposed § 955.3(b)(2)(ii)(B)(*3*) would require that the insurer be rated not lower than the second highest rating category and the member or associate be legally obligated at all times to transfer or replace the equivalent insurance should the insurer be downgraded below the second highest rating category.

The use of loan-level insurance is to provide the member or associate from which the Bank acquired the asset or pool of assets more favorable capital treatment. The member or associate may also allocate its additional credit loss coverage requirement to the U.S. government either through government insurance or guarantee.

Regardless of how the additional credit loss coverage is allocated among the above-mentioned entities, the expected credit losses must be borne by the member or associate from which the Bank acquired the asset or pool of assets. In the case of an FHA-insured loan, the loan would meet the risk-sharing requirements since it is insured by the government; however, the member or associate would have to bear the economic responsibility of all unreimbursed servicing expenses, up to the amount of expected losses on the loan or loan pool. The same would be true of VA-guaranteed loans and RHS-insured loans. In the case of HFA bonds, the bonds would meet the proposed required credit risk-sharing structure because any losses beyond the insurance or guarantee would be borne by the HFA, not the Bank. HFA bonds are usually rated in at least the third highest credit rating category based on the fact that the bonds are backed by FHA-insured, VA-guaranteed or private mortgage insurance (PMI)-insured whole loans. In many cases the bonds are backed by loans securitized by the Government National Mortgage Association (Ginnie Mae), Fannie Mae or Freddie Mac and are rated in the highest credit rating category. Additional bondholder protections frequently include mortgage reserve funds.

3. Reporting Requirements for AMA—§ 955.4

Proposed § 955.4 addresses the Banks' reporting requirements for AMA that are residential mortgages. The Finance Board is proposing to require Banks that acquire single-family and multifamily mortgage assets to submit to the Finance Board quarterly mortgage reports, which will include semi-annual loan-level reporting.

Proposed § 955.4(a)(1) would require that loan-level data be collected and maintained by each Bank acquiring AMA that are residential mortgages. The Finance Board has specified two lists of loan-level data elements: the first for single-family loans and the second for multifamily loans. These lists are included as appendices to the proposed rule. The data collected are intended to be used to create a data base and reporting infrastructure for monitoring the Banks' risk management and achievement of the public purpose of their residential mortgage purchase programs on a par with that now imposed on Fannie Mae and Freddie Mac. Thus, the information proposed to be collected by the Finance Board is largely similar to information required to be reported to HUD and the Office of Federal Housing Enterprise Oversight (OFHEO) by Fannie Mae and Freddie Mac.

A few of the data items proposed to be collected are not regularly reported by Fannie Mae and Freddie Mac to either HUD or OFHEO. The Finance Board is proposing to collect originating lender name, city and state for both single-family and multifamily acquisitions. Fannie Mae and Freddie Mac are only required to report on the

lender from which they acquired the loans. Under proposed § 955.2(b)(1)(ii), the Banks are permitted to acquire loans held for a valid business purpose by a Bank System member or associate or affiliate. In order to monitor compliance with this provision, data on the originating lender are necessary.

''Front-end ratio'' and ''back-end ratio'' are two additional items that Fannie Mae and Freddie Mac do not regularly report to either HUD or OFHEO, but collect and maintain for underwriting and credit scoring purposes. HUD collected this information as part of its examination of the GSEs' automated underwriting processes. The Finance Board is proposing to collect this information to evaluate the risk of acquired loans, and possibly to examine the extent to which the Banks' programs are reaching borrowers not served by the conventional market. ''Self-employment indicator'' is not provided by Fannie Mae and Freddie Mac to its regulators. However, the Finance Board is proposing to collect this information because the agency believes that it will be useful to assess risk and to examine the extent to which the Banks' programs are reaching borrowers not served by the conventional market. Lastly, ''prepayment penalties'' for single-family loans is not reported by Fannie Mae and Freddie Mac, but is reported for multifamily loans to OFHEO. Prepayment penalties were rarely used by single-family lenders, but have begun to grow in popularity. The Finance Board is proposing to collect this information to examine prepayment speeds so that the market risk of the loans may be calculated.

A number of the items on the lists are not applicable to current AMA programs. As proposed, the lists were compiled as broadly as possible to accommodate future programs. Under proposed § 955.4(a)(2), the list of required loan-level elements may be revised by the Finance Board from time-to-time through the notice-and-comment rulemaking process.

Under proposed § 955.4(b), within 60 days of the end of every quarter of every calendar year, the Banks that hold AMA that are residential mortgages would be required to submit a mortgage report, in a format to be determined by the Finance Board, that includes aggregations of the loan-level mortgages. The mortgage report would include year-to-date dollar volume, number of units, and number of mortgages on owner-occupied and rental properties acquired by the Bank. The mortgage report for the second and fourth quarters would be required to include, in addition to the aggregate mortgage report submitted every quarter, year-to-date loan-level data consisting of the data elements addressed in proposed § 955.4(a). The Banks would be required to submit the mortgage reports to the Finance Board in a machine readable format, to be specified by the Finance Board. Under proposed § 955.4(c), the Finance Board could, at any time, require reports in addition to those specified in proposed § 955.5(b).

The Finance Board is not at this time proposing the establishment of goals related to mortgage assets. To date, AMA mortgage asset volume is small relative to the mortgage market and, as discussed below, the Banks' balance sheets largely consist of loans that are regionally concentrated. Nonetheless, the Finance Board has begun to consider the establishment of goals. Since AMA programs, such as MPF, provide members with an alternative to selling loans in the secondary market, staff has reviewed the characteristics of MPF loans in the context of the GSE Housing Goals imposed on Fannie Mae and Freddie Mac as required under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA). 12 U.S.C. 4541 *et seq.*

FHEFSSA directs HUD to establish the target levels for three separate goals for the GSEs' mortgage purchases. These three goals are: (1) A low- and moderate-income goal, intended to achieve increased purchases by the GSEs of mortgages on housing for low- and moderate-income families; (2) a central cities, rural areas, and other underserved areas goal, intended to achieve increased purchases by the GSEs of mortgages financing housing in areas that are underserved in terms of mortgage credit; and (3) a special affordable housing goal, intended to achieve increased purchases by the GSEs of mortgages on owner-occupied and rental housing to meet the unaddressed need of, and be affordable to, low-income families in low-income areas and very low-income families.

FHEFSSA directs HUD to determine the target levels for the GSE Housing Goals after considering the following six factors: (1) National housing needs; (2) economic, housing and demographic conditions; (3) performance and effort of Fannie Mae and Freddie Mac toward achieving the Housing Goals in previous years; (4) the size of the conventional mortgage market serving the targeted population or areas relative to the size of the overall conventional mortgage market; (5) the ability of the GSEs to lead the industry in making mortgage credit available for the targeted population or areas; and (6) the need to maintain the sound financial condition of the GSEs.

Currently, factors exist that impede a proper evaluation of MPF loans with respect to the GSE Housing Goals. One of these factors is the size of the MPF portfolio. MPF loans outstanding on the Banks' balance sheets are small relative to the size of the mortgage market and the size of Fannie Mae's and Freddie Mac's portfolios. Because MPF business has occurred only over a limited time period and with a relatively small number of member institutions, MPF is not yet representative of the broader market. Under MPF, the majority of the loans have been acquired on properties located in a single state (Wisconsin), while the GSE Housing Goals are established to reflect relevant criteria at the national level. Additionally, under MPF, the Banks are acquiring only single-family loans, while the GSE Housing Goals are established to reflect the inclusion of multifamily loans and a number of other types of loans that Fannie Mae and Freddie Mac currently purchase, and which are considered when HUD sets the targets for the GSE Housing Goals.

Under the proposed rule, the Banks would be explicitly permitted to acquire multifamily mortgage assets, so long as the new business activity requirements of proposed part 980 (which is included in the Finance Board's recently-adopted proposed rule on advances collateral, and which is discussed in more detail below) are met. Prior to this proposed rule, the Banks have had only limited authority to acquire multifamily mortgage assets. This authority was not granted under Finance Board Resolution No. 99–50, which authorized only single-family mortgage programs.

According to two recent HUD reports on rental housing,[3] for various reasons, the supply of affordable rental housing has fallen short of the need. Moreover, absent concerted measures to address the problem, this trend will continue as the age of the existing affordable rental housing stock increases. In order to help address this need, the Finance Board is not only proposing to authorize the acquisition of multifamily member assets, but is encouraging the Banks to become active participants in this market. As GSEs, the Banks have a public purpose to provide liquidity to underserved markets. Given the demand for affordable rental housing, the Banks are encouraged to expand their

[3] Department of Housing and Urban Development, Rental Housing Assistance—The Crisis Continues: The 1997 Report to Congress on Worst Case Housing Needs (April 1998) and Waiting in Vain—An Update on America's Rental Housing Crisis (March 1999).

community partnerships and offer members competitive alternatives in the multifamily mortgage market.

Although the factors mentioned above limit the validity of any comparison of MPF to the GSE Housing Goals, the Finance Board has sought to examine how well MPF loans compare to the GSE Housing Goals, controlling, to the extent possible, for the factors noted above. Overall, the data suggest that the distribution of MPF loans compares favorably to the GSE Housing Goals when single-family loans are isolated. The Finance Board's analysis has shown that, as of year-end 1999, MPF has exceeded the special affordable housing goal and met the low-and moderate-income goal for 1999. However, the program has fallen short of the central cities, rural areas, and other underserved areas housing goal for 1999. Given that the underlying factors used in establishing the target for the central cities, rural areas, and other underserved areas housing goal assume a national program, it is not surprising that MPF loans did not achieve this goal. Because the majority of MPF loans are located in Wisconsin, a regional bias exists that particularly impacts the compliance of the MPF program with this goal.

The Finance Board anticipates implementing demographic goals, as determined by the Finance Board in due consideration of the existing GSE Housing Goals, at such time as the conventional residential mortgage programs of the Banks, in the aggregate, have achieved a size and scope indicative of a mature program. For example, a mature program for the Banks' conventional residential mortgage programs might be deemed to exist beginning in the year that the annual aggregated acquisition volume for all conventional residential mortgage programs for the Bank System exceeds 100,000 loans or $10 billion. Once either 100,000 loans or $10 billion in loans are acquired within a one-year period, such a program presumably would be national in scope. Similarly, a smaller set of programs, under which 75,000 loans are acquired within a one-year period, could also be considered national in scope if it were geographically dispersed among more than half of the Banks—for example, with seven different Banks accounting for at least ten percent of the loan acquisition volume.

Ideally, any benchmark for the implementation of program goals will be empirically based. The possible 100,000 loan trigger is derived from the estimated number of loans acquired by Freddie Mac in 1992, the first year goals were imposed on the GSEs. The number of Freddie Mac loans may be an appropriate benchmark because Freddie Mac is the smaller of the two housing GSEs, yet its activity is national in scope.

The alternative criteria would allow that a sufficient volume may occur at less than 100,000 loans but only if the program is clearly national in scope. The criterion that 7 different Banks account for at least 10 percent of the acquired conventional residential mortgage volume would ensure a geographically diverse pool at the lower loan total and ensure that no one Bank accounts for more than 40 percent of volume if the program is to be considered national in scope. The Finance Board specifically requests comment on the proposed measure of program maturity discussed above.

The statutorily established GSE Housing Goals will eventually be used as a baseline in determining the goals and targets for AMA that are residential mortgages. However, in establishing goals, the Finance Board will conduct research and analysis beyond the GSE Housing Goals in order to establish the most suitable goals and targets given the factors surrounding AMA residential mortgage programs. Until goals for the Banks' residential mortgage AMA programs are established, the Finance Board will continue to monitor the Banks' AMA portfolios that consist of residential mortgages with reference to the GSE Housing Goals. Any housing goals that may be implemented will be subject to the notice-and-comment rulemaking process.

4. Administrative and Investment Transactions Between Banks—§ 955.5

Proposed § 955.5 addresses the delegation of administrative AMA program duties and terminability of AMA program agreements between Banks. Under proposed § 955.5(a), a Bank would be permitted to delegate the administration of an AMA program, including the fulfillment of regulatory reporting requirements, to another Bank whose administrative office has been examined and approved by the Finance Board to process AMA transactions. Further, the proposed rule would require that the existence of such a delegation, or the possibility that such a delegation may be made, be disclosed to any potential participating member or associate before any AMA-related agreements are signed with that member or associate.

Proposed § 955.5(b) would require that any agreement made between two or more Banks in connection with any AMA program be made terminable by either party after a reasonable notice period. Under this provision, no Bank could be required to fund, purchase, sell, or process any new AMA after the termination of such an agreement.

5. Risk-Based Capital Requirement for AMA—§ 955.6

Under proposed § 955.6, each Bank must hold retained earnings plus specific loan loss reserves as support for the credit risk of all AMA estimated by the Bank to be below the second highest credit rating in an amount equal to or greater than: the outstanding balance of the assets or pools of assets, times a factor associated with the credit rating of the assets or pools of assets as determined by the Finance Board.

The proposed rule would allow Banks to hold AMA that is of a credit quality that, though still of an investment grade, is less than what has typically been permitted by the Finance Board under the FMP for Bank investments. This provision is intended to ensure the safety and soundness of any exercise of the Banks' expanded authority prior to the implementation of a risk-based capital regulation. The credit risks and operational aspects of managing AMA assets are the same as those faced by regulated banking institutions, and such institutions are required to maintain risk-based capital to offset these risk factors. The ratio of retained earnings plus loan loss reserves should reflect losses based on the default rates of similarly rated securities (based on the credit rating achieved by the AMA assets once acquired by the Bank and including all loss accounts and credit enhancements). The methodology to determine the long-term default rate factor associated with the credit rating will be discussed in the upcoming risk-based capital rulemaking.

D. Amendments to Part 956—Investments

The proposed rule would replace in its entirety existing part 956 of the Finance Board's regulations, which governs Bank investments (prior to the recent reorganization of the Finance Board's regulations, *see* 65 FR 8253 (Feb. 18, 2000), the investment regulations were contained in 12 CFR 934.1, 934.2 and 934.13).

Under sections 11(g), 11(h) and 16(a) of the Bank Act, 12 U.S.C. 1431(g), 1431(h), 1436(a), a Bank may, subject to the rules and regulations of the Finance Board, invest in: (1) Obligations of the United States, *see id.* §§ 1431(g), 1431(h) and 1436(a); (2) deposits in banks or trust companies, *see id.* § 1431(g); (3) obligations, participations or other instruments of, or issued by, Fannie

Mae or Ginnie Mae, *see id.* §§ 1431(h), 1436(a); (4) mortgages, obligations, or other securities that are, or ever have been sold by Freddie Mac, *see id.* §§ 1431(h), 1436(a); (5) stock of Fannie Mae, *see id.* § 1431(h); (6) stock, obligations, or other securities of any SBIC formed pursuant to 15 U.S.C. 681(d) (to the extent the investment is made for purposes of aiding Bank members), *see* 12 U.S.C. 1431(h); and (7) instruments that the Bank has determined are permissible investments for fiduciary and trust funds under the laws of the state in which the Bank is located, *see id.* §§ 1431(h), 1436(a).

Currently, § 956.2 of the regulations (formerly § 934.1) limits the Banks' statutory investment authority by permitting a Bank to make investments only pursuant to specific authorizations of the Finance Board, or in conformity with ''stated [Finance] Board policy.'' 12 CFR 956.2(a). Since 1991, the ''stated policy'' referred to in the regulation has been the FMP, which, among other things, sets forth a list of permissible Bank investments that is narrower than that which could be permitted under the statute.

The investments authorized under section II.B. of the FMP are: (1) Overnight and term federal funds with a remaining term to maturity not exceeding nine months; (2) overnight and term resale agreements with a remaining term to maturity not exceeding nine months; (3) United States dollar deposits with a remaining term to maturity not exceeding nine months; (4) commercial paper, bank notes and thrift notes traded in U.S. financial markets and rated P–1 (by Moody's) or A–1 (by Standard & Poor's) with a remaining term to maturity not exceeding nine months; (5) banker's acceptances with a remaining term to maturity not exceeding nine months; (6) marketable obligations issued or guaranteed by the United States; (7) marketable direct obligations of United States government-sponsored agencies and instrumentalities, for which the credit of such institutions is pledged for the repayment of both principal and interest; (8) MBS issued, guaranteed or fully insured by Ginnie Mae, Fannie Mae, or Freddie Mac, or collateralized mortgage obligations (CMOs) or real estate mortgage investment conduits (REMICs) backed by such MBS; (9) other MBS, CMOs and REMICs rated Aaa (by Moody's) or AAA (by Standard & Poor's); (10) asset-backed securities collateralized by manufactured housing loans or home equity loans and rated Aaa (by Moody's) or AAA (by Standard & Poor's); (11) marketable direct obligations of state or local government units or agencies, rated at least Aa (by Moody's) or AA (by Standard & Poor's), where the purchase of such obligations by a Bank provides to the issuer the customized terms, necessary liquidity, or favorable pricing required to generate needed funding for housing or community development; and (12) upon the fulfillment of certain conditions, and with the prior approval of the Finance Board, other investments that support housing and community development.

Under proposed part 956, the Banks would no longer be limited to a list of specific, approved investments. Instead, proposed § 956.2 would permit the Banks to hold all of the investments that are authorized under the Bank Act (with the exception of Fannie Mae common stock), subject to the safety and soundness restrictions set forth in proposed § 955.3, and subject to the procedural requirements contained in proposed part 980 (which was proposed as part of the Finance Board's recently-adopted proposed rule on advances collateral and is described in more detail below).

The only investment that is explicitly enumerated in the Bank Act that would not be permitted under proposed § 956.2 is investment in the stock of Fannie Mae. As discussed below, proposed § 956.3(a)(1) would prohibit Banks from investing in instruments that provide an ownership interest in an entity, with an exception for equity investments that qualify as core mission activities under proposed part 940. Because the Finance Board does not believe that Fannie Mae stock could under any circumstances qualify as a core mission activity, and because Fannie Mae stock is not an authorized investment under the FMP and is not currently held as an investment by any Bank, it has been omitted from the list of authorized investments in proposed § 956.2.

Both sections 11(h) and 16(a) of the Bank Act state that the Banks may be authorized to invest in ''such securities as fiduciary and trust funds may be invested in under the laws of the state in which the * * * Bank is located.'' *See* 12 U.S.C. 1431(h), 1436(a). In implementing this authority through § 956.2(f) of the proposed rule, the word ''instruments'' has been substituted for the word ''securities'' to reflect in the proposed rule the Finance Board's construction of the term ''securities,'' as used in sections 11(h) and 16(a) of the Bank Act, to encompass the broad range of financial investment instruments and not merely those instruments that are within the technical definition of ''securities'' set forth in the federal securities laws. *See* 15 U.S.C 77b(1).

The broad investment authority established under proposed § 956.2 would be limited by a number of safety and soundness-related restrictions set forth in proposed § 956.3. For reasons of safety and soundness, proposed § 956.3(a)(1) generally would prohibit the Banks from making any investment in instruments that would provide an ownership interest in an entity (*e.g.,* common or preferred stock, rights, warrants or convertible bonds). However, in order to permit Banks to make the types of targeted equity investments that qualify as core mission activities, the proposed rule would except from this prohibition equity investments that would qualify as CMA under proposed § § 940.3(a)(5) and (6). The Finance Board anticipates that such targeted equity investments would represent only a small portion of a Bank's balance sheet and that the additional risk associated with such investments would be mitigated by requiring the Bank to hold adequate capital against these investments. Although the proposed equity investment authority is narrow, this authorization would be less restrictive than what is currently permitted under the FMP, which permits equity investments only in the stock of SBICs.

Proposed § 956.3(a)(2) would prohibit the Banks from investing in instruments issued by foreign entities, except United States branches and agency offices of foreign commercial banks. Such instruments conceivably could qualify as permissible investments for fiduciary and trust funds and, therefore, would be permissible Bank investments unless specifically prohibited. This is consistent with the current prohibition in the FMP. *See* Finance Board Res. No. 97–05 (Jan. 14, 1997).

Proposed § 956.3(a)(3) generally would prohibit the Banks from investing in debt instruments that are not rated as investment grade (*i.e.,* one of the four highest credit rating categories given by an NRSRO). In order to permit Banks to invest in CMA that may be below investment grade, proposed § 956.3(a)(3)(i) would except such CMA from the prohibition on below-investment grade debt securities. As is the case with CMA-related equity investments, it is anticipated that below-investment grade CMA debt investments would represent only a small portion of a Bank's balance sheet and that the additional risk associated with such investments would be mitigated by requiring the Bank to hold adequate capital against these investments. Under proposed § 956.3(a)(3)(ii), the Banks would not be required to divest themselves of debt

instruments that are downgraded to below-investment grade after the instruments already have been acquired by the Bank.

Under the FMP, the Banks are permitted to invest in debt instruments that are rated in the third highest credit rating category or higher, although debt investments that are in the third highest credit rating category may be held only for a term of one day. Thus, the authorization set forth in the proposed rule is somewhat broader than that which is permitted under the FMP.

Finally, proposed § 956.3(a)(4) would prohibit the Banks from acquiring whole mortgages or other whole loans, or interests in mortgages or loans, except: (i) AMA acquired under part 955 of the proposed rule; (ii) marketable direct obligations of state or local government units or agencies, particularly state or local HFA bonds that do not qualify as AMA, having at least the second highest credit rating from a NRSRO, where the purchase of such obligations by the Bank provides to the issuer the customized terms, necessary liquidity, or favorable pricing required to generate needed funding for housing or community lending; (iii) MBS, or asset-backed securities collateralized by manufactured housing loans or home equity loans, that are ''securities'' under the Securities Act of 1933, 15 U.S.C. 77b(a)(1); and (iv) loans held or acquired pursuant to section 12(b) of the Bank Act, 12 U.S.C. 1432(b). As described in detail above, proposed part 955 establishes parameters regarding the types of whole loans that the Banks may acquire from members and associates and the nature of the transactions through which such assets may be acquired. Proposed § 956.3(a)(4)(i) is intended to make clear that part 955 of the regulations is the sole source of regulatory authority regarding the Banks' acquisition of whole loans and that any whole loan acquisitions must meet the requirements of part 955 in order to be permissible.

Under proposed § 956.3(a)(4)(ii), the Banks could continue to invest in state or local HFA bonds that do not qualify as AMA (*i.e.,* those not issued by, through, or on behalf of a Bank System member or associate). However, HFA bonds not qualifying as AMA also would not qualify as CMA.

The reference in proposed § 956.3(a)(4)(iii) to MBS and asset-backed securities that meet the definition of the term ''securities'' in the Securities Act of 1933 is intended to make clear that Banks may continue to invest in the types of MBS and asset-backed securities that are commonly available in the securities marketplace, but may not attempt to circumvent the AMA requirements of proposed part 955 by deeming unsecuritized pools of mortgages or other loans to be MBS or asset-backed securities.

Proposed § 956.3(a)(4)(iii) would also except from the loan investment restriction, housing project loans guaranteed under the Foreign Assistance Act of 1961, as amended, 22 U.S.C. 2181, 2182, 2184, which are expressly authorized by Congress as Bank investments under section 12(b) of the Bank Act. 12 U.S.C. 1432(b).

Proposed § 956.3(b) would prohibit a Bank from taking a position in any commodity or foreign currency. Proposed § 956.3(b) also provides that, in the event that a Bank becomes exposed to currency, commodity or equity risks through participation in COs that are linked to a foreign currency or to equity or commodity prices, such risks must be hedged. The Banks currently do not have expertise in these areas and the Finance Board can discern no reason for the Banks to have or develop expertise in managing the risks associated with foreign exchange rates or commodities.

Under proposed § 956.4, the Banks must hold retained earnings plus specific loan loss reserves as support for the credit risk of all investments that are not rated by an NRSRO, or are rated below the second highest credit rating, in an amount equal to or greater than the outstanding balance of the investments times a factor associated with the credit rating of the investments as determined by the Finance Board. It is expected that this specific provision will be superseded at the time that a final capital rule is promulgated, to be replaced by specific capital requirements relating to each credit rating category.

Except for those provisions in the FMP that are directly overridden by this proposed rule, all provisions of the FMP would remain in effect until expressly repealed by the Finance Board. Accordingly, Bank investment in agency and private MBS, CMOs and REMICs and in asset-backed securities secured by manufactured housing or home equity loans would continue to be limited to a total amount equal to 300 percent of a Bank's capital. It is anticipated that the remaining provisions of the FMP will be repealed, or at least codified as regulations, at such time as the Finance Board promulgates a final rule on capital and risk management.

E. Effect of Proposed Part 980 of the Recently-Adopted Proposed Rule on Advances Collateral

As mentioned several times above, under this proposed rule, the Banks' exercise of their AMA and investment authorities would be subject to the new business activity procedural requirements set forth in proposed part 980, which was recently adopted as part of the Finance Board's proposed rule on advances collateral. Under proposed part 980, each Bank would be required to provide at least 60 days' prior written notice to the Finance Board of any new business activity that the Bank wishes to undertake—including new types of AMA transactions and new types of investments. While a Bank could proceed with a new business activity after 60 days if not expressly prevented from doing so by the Finance Board, proposed part 980 would give the Finance Board the opportunity to disapprove or restrict such activities, as necessary, on a case-by-case basis. A ''new business activity'' would include: (1) A business activity that has not been undertaken previously by that Bank, or was undertaken previously under materially different terms and conditions; (2) a business activity that entails risks not previously and regularly managed by that Bank, its members, or both, as appropriate; or (3) a business activity that involves operations not previously undertaken by that Bank. The prior notice requirement would apply to any Bank desiring to pursue a new activity, even if another Bank has already undertaken the same activity.

As discussed above, the proposed expansion of the Banks' member asset and investment authorities would present new management challenges for the Banks. By making the Banks' exercise of their authorities under proposed parts 955 and 956 subject to the new business activity review procedure, the Finance Board would, among other things, explicitly reserve the right to conduct pre-implementation safety and soundness examinations of new Bank business activities and to apply safety and soundness restrictions to such activities, where necessary.

III. Regulatory Flexibility Act

The proposed rule applies only to the Banks, which do not come within the meaning of ''small entities,'' as defined in the Regulatory Flexibility Act (RFA). *See* 5 U.S.C. 601(6). Therefore, in accordance with section 605(b) of the RFA, *see id.* at 605(b), the Finance Board hereby certifies that this proposed rule, if promulgated as a final rule, will

not have a significant economic impact on a substantial number of small entities.

List of Subjects in 12 CFR Parts 900, 940, 950, 955 and 956

Community development, Credit, Federal home loan banks, Housing, Reporting and recordkeeping requirements.

Accordingly, the Finance Board hereby proposes to amend title 12, chapter IX, Code of Federal Regulations, as follows:

PART 900—GENERAL DEFINITION

1. The authority citation for part 900 is revised to read as follows:

Authority: 12 U.S.C. 1422, 1422b(a)(1).

2. Amend § 900.1 by adding, in alphabetical order, a definition of the term ''acquired member assets or AMA,'' to read as follows:

§ 900.1 Definitions applying to all regulations.

* * * * *

Acquired member assets or *AMA* means those assets that may be acquired by a Bank under part 955 of this chapter.

* * * * *

3. The heading for part 940 is revised to read as follows:

PART 940—CORE MISSION ACTIVITIES

4. The authority citation for part 940 continues to read as follows:

Authority: 12 U.S.C. 1422a(a)(3), 1422b(a), 1430, 1430b, 1431.

5. In part 940, amend § 940.1 by adding, in alphabetical order, definitions of the terms ''Financial Management Policy'', ''low- or moderate-income household'', and ''SBIC'', to read as follows:

§ 940.1 Definitions.

* * * * *

Financial Management Policy (*FMP*) has the meaning set forth in § 956.1 of this chapter.

Low- or moderate-income household means a household with an income that is at or below 115 percent of the area median household income, as published by the Department of Housing and Urban Development.

SBIC means a small business investment company formed pursuant to 15 U.S.C. 681(d).

6. Amend part 940 by adding a new § 940.3, to read as follows:

§ 940.3 Core mission activities.

(a) *General.* The following Bank activities qualify as core mission activities:

(1) Advances;

(2) Acquired member assets (AMA), except that United States government-insured or guaranteed whole single-family residential mortgage loans acquired under a commitment entered into after April 12, 2000 shall qualify based on the following calculations, which, at the discretion of two or more Banks, may be made based on aggregate transactions among those Banks:

(i) For calendar year 2000, such loans shall qualify in a dollar amount up to 33 percent of: the total dollar amount of AMA acquired by a Bank after April 12, 2000, less the dollar amount of United States government-insured or guaranteed whole single-family residential mortgage loans acquired after April 12, 2000 under commitments entered into on or before April 12, 2000; and

(ii) For calendar year 2001 and subsequent years, such loans shall qualify in a dollar amount up to 33 percent of: the total dollar amount of AMA acquired by a Bank during that year, less the dollar amount of United States government-insured or guaranteed whole single-family residential mortgage loans acquired under commitments entered into on or before April 12, 2000.

(3) Standby letters of credit;

(4) Intermediary derivative contracts;

(5) Non-securitized debt investments or equity investments that:

(i) Primarily benefit low- or moderate-income households, or areas targeted for redevelopment by local, state, tribal or Federal government (including Federal empowerment zones and enterprise and champion communities) by providing or supporting one or more of the following activities:

(A) Affordable housing;

(B) Economic development;

(C) Community services;

(D) Permanent jobs for members of low- or moderate-income households; or

(E) Area revitalization or stabilization; and

(ii) Involve one or more members or associates in a manner, financial or otherwise, and to a degree to be determined by the Bank;

(6) Investments in SBICs, to the extent that a Bank's investment is structured to be matched by an investment in the same activity by members or associates of the Bank making the investment;

(7) The short-term tranche of SBIC securities guaranteed by the Small Business Administration;

(8) Section 108 Interim Notes and Participation Certificates guaranteed by the Department of Housing and Urban Development under section 108 of the Housing and Community Development Act of 1974, as amended (42 U.S.C. 5308);

(9) Investments and obligations issued or guaranteed under Title VI of the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4191 through 4195).

(b) *Status of certain investments made under the FMP.* Notwithstanding that certain investments made by a Bank pursuant to sections II.B.8. through 11. of the FMP do not qualify as core mission activities, any limit on such assets that may be promulgated by the Finance Board shall not limit the authority of a Bank to hold to maturity, or to fund using the proceeds of consolidated obligations, such assets held by the Bank as of April 12, 2000, except as may be necessary to ensure the safety and soundness of the Banks.

PART 950—ADVANCES

7. The authority citation for part 950 continues to read as follows:

Authority: 12 U.S.C. 1422a(a)(3), 1422b(a)(1), 1426, 1429, 1430, 1430b and 1431.

8. Amend part 950 by adding a new subpart C to read as follows:

Subpart C—Advances to Out-of-District Members and Associates

§ 950.18 Advances to out-of-district members and associates.

(a) *Establishment of creditor/debtor relationship.* Any Bank may become a creditor to a member or associate of another Bank through the purchase of an outstanding advance, or a participation interest therein, from the other Bank, or through an arrangement with the other Bank that provides for the establishment of such a creditor/debtor relationship at the time an advance is made.

(b) *Applicability of advances requirements.* Any debtor/creditor relationship established pursuant to paragraph (a) of this section shall be subject to all of the provisions of this part that would apply to an advance made by a Bank to its own members or associates.

9. In subchapter G, add a new part 955 to read as follows:

PART 955—ACQUIRED MEMBER ASSETS

Sec.

955.1 Definitions.
955.2 Authorization to hold acquired member assets.
955.3 Required credit-risk sharing structure.

955.4 Reporting requirements for acquired member assets.
955.5 Administrative and investment transactions between Banks.
955.6 Risk-based capital requirement for acquired member assets.
Appendix A to Part 955—Reporting requirements for single-family acquired member assets that are residential mortgages: loan-level data elements
Appendix B to Part 955—Reporting requirements for multi-family acquired member assets that are residential mortgages: loan-level data elements

Authority: 12 U.S.C. 1422a(a)(3), 1422b(a), 1430, 1430b, 1431.

§ 955.1 Definitions.

As used in this section:

Affiliate has the meaning set forth in § 950.1 of this chapter.

Financial Management Policy (FMP) has the meaning set forth in § 956.1 of this chapter.

NRSRO has the meaning set forth in § 966.1 of this chapter.

Residential real property has the meaning set forth in § 950.1 of this chapter.

State has the meaning set forth in § 925.1 of this chapter

§ 955.2 Authorization to hold acquired member assets.

Subject to the requirements of part 980 of this chapter, each Bank may hold assets acquired from or through Bank System members or associates by means of either a purchase or a funding transaction, subject to each of the following requirements:

(a) *Loan type requirement.* The assets are either:

(1) Whole loans that are eligible to secure advances under § § 950.7(a)(1)(i), (a)(2)(ii), (a)(4), or (b)(1) of this chapter, excluding:

(i) Single-family mortgages where the loan amount exceeds the limits established pursuant to 12 U.S.C. 1717(b)(2); and (ii) Loans made to an entity, or secured by property, not located in a state;

(2) Whole loans secured by manufactured housing, regardless of whether such housing qualifies as residential real property; or (3) State and local housing finance agency bonds;

(b) *Member or associate nexus requirement.* The assets are:

(1) Either:

(i) Originated or issued by, through, or on behalf of a Bank System member or associate, or an affiliate thereof; or (ii) Held for a valid business purpose by a Bank System member or associate, or an affiliate thereof, prior to acquisition by a Bank; and

(2) Are acquired either:

(i) From a member or associate of the acquiring Bank;

(ii) From a member or associate of another Bank, pursuant to an arrangement with that Bank; or

(iii) From another Bank; and

(c) *Credit risk-sharing requirement.* The transactions through which the Bank acquires the assets either:

(1) Meet the credit risk-sharing requirements of § 955.3 of this part; or

(2) Were authorized by the Finance Board under section II.B.12. of the FMP and are within any total dollar cap established by the Finance Board at the time of such authorization.

§ 955.3 Required credit risk-sharing structure.

(a) *Determination of necessary credit enhancement.* (1) At the time of acquisition of acquired member assets (AMA), a Bank shall determine:

(i) The expected credit losses on each asset or pool of assets; and

(ii) The total credit enhancement necessary to enhance the asset or pool of assets to at least the fourth highest credit rating category, or such higher credit rating as the Bank may require.

(2) The Bank's estimates of expected losses and total credit enhancement required under paragraph (a)(1) of this section shall be determined using a methodology that is confirmed in writing by an NRSRO to be comparable to a methodology that the NRSRO would use in conducting a formal rating review of the asset or pool of assets.

(b) *Credit risk-sharing structure.* Based on the determinations required under paragraph (a) of this section, a Bank shall implement a credit enhancement structure that:

(1) As evidenced by a written confirmation from an NRSRO, enhances the asset or pool of assets to at least the fourth highest credit rating category, or such higher credit rating as the Bank may require; and

(2) Incorporates credit risk-sharing with the member or associate such that either:

(i) The member or associate from which a Bank acquired an asset or pool of assets directly bears the economic consequences of all credit losses in excess of expected losses, as estimated by the Bank using the methodology described in paragraph (a) of this section, up to the amount necessary to enhance the asset or pool of assets to the fourth highest credit rating category, or such higher rating as required by the Bank; or

(ii)(A) The member or associate from which the Bank acquired an asset or pool of assets directly bears the economic consequences of all credit losses up to the amount of expected losses on the asset or pool of assets, as estimated by the Bank using the methodology described in paragraph (a) of this section; and

(B) The member or associate assumes responsibility for such additional credit loss coverage as is necessary to enhance the asset or pool of assets to the fourth highest credit rating category, or such higher rating as required by the Bank, which coverage may be provided by, or allocated among:

(*1*) The member or associate;

(*2*) Any other member or associate in the Bank's district;

(*3*) Loan-level insurance, including United States government insurance or guarantee, where the member or associate is legally obligated at all times to maintain such insurance with an insurer rated not lower than the second highest credit rating category.

§ 955.4 Reporting requirements for acquired member assets.

(a) *Loan-level data elements.* (1) Each Bank that acquires AMA that are residential mortgages shall collect and maintain loan-level data on each mortgage held, as specified in appendix A (for single-family mortgage assets) or appendix B (for multifamily mortgage assets) to this part.

(2) The Finance Board may, from time-to-time, amend the lists of required loan-level data elements set forth in appendices A and B of this part by publication of a document in the **Federal Register.**

(b) *Quarterly mortgage reports.* Within 60 days of the end of every quarter of every calendar year, each Bank that acquires AMA that are residential mortgages shall submit to the Finance Board a Mortgage Report, which shall include:

(1) Aggregations of the loan-level mortgage data compiled by the Bank pursuant to paragraph (a) of this section for year-to-date mortgage acquisitions, in a format specified by the Finance Board;

(2) Year-to-date dollar volume, number of units and number of mortgages on owner-occupied and rental properties relating to AMA acquired by the Bank; and

(3) For the second and fourth quarter Mortgage Reports only, year-to-date loan-level data that:

(i) Comprises the data elements required to be collected and maintained by the Bank under paragraph (a) of this section; and

(ii) Appears in a machine-readable format specified by the Finance Board.

(c) *Additional reports.* The Finance Board may at any time require a Bank to submit reports in addition to those required under paragraph (b) of this section.

§ 955.5 Administrative and investment transactions between Banks.

(a) *Delegation of administrative duties.* A Bank may delegate the administration of an AMA program to another Bank whose administrative office has been examined and approved by the Finance Board to process AMA transactions. The existence of such a delegation, or the possibility that such a delegation may be made, must be disclosed to any potential participating member or associate before any AMA-related agreements are signed with that member or associate.

(b) *Terminability of agreements.* Any agreement made between two or more Banks in connection with any AMA program shall be made terminable by either party after a reasonable notice period.

(c) *Delegation of pricing authority.* A Bank that has delegated its AMA pricing function to another Bank shall retain a right to refuse to acquire AMA at prices it does not consider appropriate.

§ 955.6 Risk-based capital requirement for acquired member assets.

Each Bank shall hold retained earnings plus specific loan loss reserves as support for the credit risk of all AMA estimated by the Bank to be below the second highest credit rating in an amount equal to or greater than: the outstanding balance of the assets or pools of assets times a factor associated with the credit rating of the assets or pools of assets as determined by the Finance Board.

Appendix A to Part 955—Reporting Requirements For Single-Family Acquired Member Assets That Are Residential Mortgages: Loan-Level Data Elements

1. *FHLBank District Flag*—Two-digit numeric code designating the District FHLBank that originally acquired the loan.

2. *Participating FHLBank District Flag*—Two-digit numeric code designating the District FHLBank that purchased a participation in the loan.

3. *Loan Number*—Unique numeric identifier used by the FHLBanks for each mortgage acquisition.

4. *US Postal State*—Two-digit numeric Federal Information Processing Standard (FIPS) code.

5. *US Postal Zip Code*—Five-digit zip code for the property.

6. *MSA Code*—Four-digit numeric code for the property's metropolitan statistical area (MSA) if the property is located in an MSA.

7. *Place Code*—Five-digit numeric FIPS code.

8. *County*—County, as designated in the most recent decennial census by the Bureau of the Census.

9. *Census Tract/Block Numbering Area (BNA)*—Tract/BNA number as used in the most recent decennial census by the Bureau of the Census.

10. *1990 Census Tract-Percent Minority*—Percentage of a census tract's population that is minority based on the most recent decennial census by the Bureau of the Census.

11. *1990 Census Tract-Median Income*—Median family income for the census tract.

12. *1990 Local Area Median Income*—Median income for the area.

13. *Tract Income Ratio*—Ratio of the 1990 census tract median income to the 1990 local area median income (*i.e.,* loan-level data element number 11 divided by loan-level data element number 12).

14. *Borrower(s) Annual Income*—Combined income of all borrowers.

15. *Area Median Family Income*—Current median family income for a family of four for the area as established by HUD.

16. *Borrower Income Ratio*—Ratio of Borrower(s) annual income to area median family income.

17. *Acquisition Unpaid Principal Balance (UPB)*—UPB in whole dollars of the mortgage when acquired by the FHLBank.

18. *Loan-to-Value (LTV) Ratio at Origination*—LTV ratio of the mortgage at the time of origination.

19. *Participation Percentage*—Where the mortgage acquisition is a participation, the percentage of the mortgage for each FHLBank listed in loan-level data element number 2.

20. *Date of Mortgage Note*—Date the mortgage note was created.

21. *Date of Acquisition*—Date the FHLBank acquired the mortgage.

22. *Purpose of Loan*—Indicates whether the mortgage was a purchase money mortgage, a refinancing, a construction mortgage, or a financing of property rehabilitation.

23. *Cooperative Unit Mortgage*—Indicates whether the mortgage is on a dwelling unit in a cooperative housing building.

24. *Product Type*—Indicates the product type of the mortgage, *i.e.,* fixed rate, adjustable rate mortgage (ARM), balloon, graduated payment mortgage (GPM) or growing equity mortgages (GEM), reverse annuity mortgage, or other.

25. *Federal Guarantee*—Numeric code that indicates whether the mortgage has a Federal guarantee, and from which agency.

26. *Term of Mortgage at Origination*—Term of the mortgage at the time of origination in months.

27. *Amortization Term*—For amortizing mortgages, the amortization term of the mortgage in months.

28. *Originating Lender Institution*—Name of the institution that originated the loan.

29. *Originating Lender City*—City location of the institution that originated the loan.

30. *Originating Lender State*—State location of the institution that originated the loan.

31. *Acquiring Lender Institution*—Name of the institution from which the FHLBank acquired the mortgage.

32. *Acquiring Lender City*—City location of the institution from which the FHLBank acquired the mortgage.

33. *Acquiring Lender State*—State location of the institution from which the FHLBank acquired the mortgage.

34. *Type of Seller Institution*—Type of institution that sold the mortgage to the GSE, *i.e.,* mortgage company, Savings Association Insurance Fund (SAIF) insured depositary institution, Bank Insurance Fund (BIF) insured depositary institution, National Credit Union Association (NCUA) insured credit union, or other seller.

35. *Number of Borrowers*—Number of borrowers.

36. *First-Time Home Buyer*—Numeric code indicating whether the mortgagor(s) are first-time homebuyers; second mortgages and refinancings are not treated as first-time homebuyers.

37. *Mortgage Purchased under the Banks' Community Investment Cash Advances (CICA) Programs*—Indicates whether the Bank purchased the mortgage under an AHP or CIP program.

38. *Acquisition Type*—Indicates whether the FHLBank acquired the mortgage with cash, by swap, with a credit enhancement, a bond or debt purchase, reinsurance, risk-sharing, real estate investment trust (REIT), or a real estate mortgage investment conduit (REMIC), or other.

39. *FHLBank Real Estate Owned*—Indicates whether the mortgage is on a property that was in the FHLBank's real estate owned (REO) inventory.

40. *Borrower Race or National Origin*—Numeric code indicating the race or national origin of the borrower.

41. *Co-Borrower Race or National Origin*—Numeric code indicating the race or national origin of the co-borrower.

42. *Borrower Gender*—Numeric code that indicates whether the borrower is male or female.

43. *Co-Borrower Gender*—Numeric code that indicates whether the co-borrower is male or female.

44. *Age of Borrower*—Age of borrower in years.

45. *Age of Co-Borrower*—Age of co-borrower in years.

46. *Occupancy Code*—Indicates whether the mortgaged property is an owner-occupied principal residence, a second home, or a rental investment property.

47. *Number of Units*—Indicates the number of units in the mortgaged property.

48. *Unit—Number of Bedrooms*—Where the property contains non-owner-occupied dwelling units, the number of bedrooms in each of those units.

49. *Unit—Affordable Category*—Where the property contains non-owner-occupied dwelling units, indicates under which, if any, of the special affordable goals the units qualified.

50. *Unit—Reported Rent Level*—Where the property contains non-owner-occupied dwelling units, the rent level for each unit in whole dollars.

51. *Unit—Reported Rent Plus Utilities*—Where the property contains non-owner-occupied dwelling units, the rent level plus the utility cost for each unit in whole dollars.

52. *Geographically Targeted Indicator*—Numeric code that indicates loans made in census tracts classified as underserved by HUD.

53. *Interest Rate*—Note rate on the loan.

54. *Loan Amount*—Loan balance at origination.

55. *Front-end Ratio*—Ratio of principal, interest, taxes, and insurance to borrower(s) income.

56. *Back-end Ratio*—Ratio of all debt payments to borrower(s) income.

57. *Borrower FICO Score*—Fair, Isaacs, Co. credit score of borrower.

58. *Co-Borrower FICO Score*—Fair, Isaacs, Co. credit score of co-borrower.

59. *PMI Percent*—Percent of original loan balance covered by private mortgage insurance.

60. *Credit Enhancement*—Numeric code indicating type of credit enhancement.

61. *Self-Employed Indicator*—Numeric indicator for whether the borrower is self-employed.

62. *Property Type*—Numeric indicator for whether the property is single-family detached, condominium, townhouse, PUD, etc.

63. *Default Status*—Numeric indicator for whether the loan is currently in default.

64. *Termination Date*—Date on which the loan terminated.

65. *Termination Type*—Numeric indicator for whether the loan terminated in a prepayment, foreclosure, or other types of termination.

66. *ARM Index*—Index used for the calculation of interest on an ARM.

67. *ARM margin*—Margin added to the index for calculation of the interest on an ARM.

68. *Prepayment Penalty Terms*—Numeric indicator for types of prepayment penalties.

Appendix B to Part 955—Reporting Requirements for Multi-Family Acquired Member Assets That Are Residential Mortgages: Loan-Level Data Elements

1. *FHLBank District Flag*—Two-digit numeric code designating the District FHLBank that originally acquired the loan.

2. *Participating FHLBank District Flag*—Two-digit numeric code designating the District FHLBank that purchased a participation in the loan.

3. *Loan Number*—Unique numeric identifier used by the FHLBanks for each mortgage acquisition.

4. US Postal State—Two-digit numeric Federal Information Processing Standard (FIPS) code.

5. *US Postal Zip Code*—Five-digit zip code for the property.

6. *MSA Code*—Four-digit numeric code for the property's metropolitan statistical area (MSA) if the property is located in an MSA.

7. *Place Code*—Five-digit numeric FIPS code.

8. *County*—County, as designated in the most recent decennial census by the Bureau of the Census.

9. *Census Tract/Block Numbering Area (BNA)*—Tract/BNA number as used in the most recent decennial census by the Bureau of the Census.

10. *1990 Census Tract-Percent Minority*—Percentage of a census tract's population that is minority based on the most recent decennial census by the Bureau of the Census.

11. *1990 Census Tract-Median Income*—Median family income for the census tract.

12. *1990 Local Area Median Income*—Median income for the area.

13. *Tract Income Ratio*—Ratio of the 1990 census tract median income to the 1990 local area median income (i.e., loan-level data element number 11 divided by loan-level data element number 12).

14. *Area Median Family Income*—Current median family income for a family of four for the area as established by HUD.

15. *Affordability Category*—Indicates under which, if any, of the special affordable goals mandated by HUD for Fannie Mae and Freddie Mac, the property would qualify.

16. *Acquisition Unpaid Principal Balance (UPB)*—UPB in whole dollars of the mortgage when purchased by the FHLBank.

17. *Loan-to-Value (LTV) Ratio at Origination*—LTV ratio of the mortgage at the time of origination.

18. *Participation Percentage*—Where the mortgage acquisition is a participation, the percentage of the mortgage when the note was created for each FHLBank listed in loan-level data element number 2.

19. *Date of Mortgage Note*—Date the mortgage note was created.

20. *Date of Acquisition*—Date the FHLBank acquired the mortgage.

21. *Purpose of Loan*—Indicates whether the mortgage was a purchase money mortgage, a refinancing, a construction mortgage, or a financing of property rehabilitation.

22. *Cooperative Project Loan*—Indicates whether the mortgage is a project loan on a cooperative housing building.

23. *Mortgagor Type*—Indicates the type of mortgagor, i.e., an individual, a for-profit entity such as a corporation or partnership, a nonprofit entity such as a corporation or partnership, a public entity, or other type of entity.

24. *Product Type*—Indicates the product type of the mortgage, i.e., fixed rate, adjustable rate mortgage (ARM), balloon, graduated payment mortgage (GPM) or growing equity mortgages (GEM), reverse annuity mortgage, or other.

25. *Government Insurance*—Indicates whether any part of the mortgage has government insurance.

26. *FHA Risk Share Percent*—The percentage of the risk assumed for the mortgage purchased under a risk-sharing arrangement with FHA.

27. *Mortgage Purchased under the Banks' Community Investment Cash Advances (CICA) Programs*—Indicates whether the Bank purchased the mortgage under an AHP or CIP program.

28. *Acquisition Type*—Indicates whether the FHLBank acquired the mortgage with cash, by swap, with a credit enhancement, a bond or debt purchase, reinsurance, risk-sharing, real estate investment trust (REIT), or a real estate mortgage investment conduit (REMIC), or other.

29. *Term of Mortgage at Origination*—Term of the mortgage at the time of origination in months.

30. *Amortization Term*—For amortizing mortgages, the amortization term of the mortgage in months.

31. *Originating Lender Institution*—Name of the entity that originated the loan.

32. *Originating Lender City*—City location of the entity that originated the loan.

33. *Originating Lender State*—State location of the entity that originated the loan.

34. *Acquiring Lender Institution*—Name of the entity from which the FHLBank acquired the mortgage.

35. *Acquiring Lender City*—City location of the entity from which the FHLBank acquired the mortgage.

36. *Acquiring Lender State*—State location of the institution from which the FHLBank acquired the mortgage.

37. *Type of Seller Institution*—Type of institution that sold the mortgage to the GSE, i.e., mortgage company, Savings Association Insurance Fund (SAIF) insured depositary institution, Bank Insurance Fund (BIF) insured depositary institution, National Credit Union Association (NCUA) insured credit union, or other seller.

38. *FHLBank Real Estate Owned*—Indicates whether the mortgage is on a property that was in the FHLBank's real estate owned (REO) inventory.

39. *Number of Units*—Indicates the number of units in the mortgaged property.

40. *Geographically Targeted Indicator*—Numeric code that indicates loans made in census tracts classified as underserved by HUD.

41. *Public Subsidy Program*—Indicates whether the mortgage property is involved in a public subsidy program and which level(s) of government are involved in the subsidy program, *i.e.,* Federal government only, other only, Federal government, etc.

42. *Unit Class Level*—The following data apply to unit types in a particular mortgaged property. The unit types are defined by the Banks for each property and are differentiated based on the number of bedrooms in the units and on the average contract rent for the units. A unit type must be included for each bedroom size category in the property;

A. Unit Type XX—Number of Bedroom(s)—the number of bedrooms in the unit type;

B. Unit Type XX—Number of Units—the number of units in the property within the unit type;

C. Unite Type XX—Average Reported Rent Level—the average rent level for the unit type in whole dollars; and

D. Unit Type XX—Average Reported Rent Plus Utilities—the average reported rent level plus the utility cost for each unit in whole dollars; and

E. Unit Type XX—Affordability Level—the ratio of the average reported rent plus utilities for the unit type to the adjusted area median income

F. Unit Type XX—Tenant Income Indicator—indicates whether the tenant's income is less than 60 percent of area median income, greater than or equal to 60 percent but less than 80 percent of area median income, greater than or equal to 80 percent but less than 100 percent of area median income, or greater than or equal to 100 percent of area median income.

43. *Interest Rate*—Note rate on the loan.

44. *Debt Service Coverage Ratio*—Ratio of net operating income to debt service.

45. *Default Status*—Numeric indicator for whether the loan is currently in default.

46. *Termination Date*—Date on which the loan terminated.

47. *Termination Type*—Numeric indicator for whether the loan terminated in a prepayment, foreclosure, or other types of termination.

48. *ARM Index*—Index used for the calculation of interest on an ARM.

49. *ARM margin*—Margin added to the index for calculation of the interest on an ARM.

50. *Prepayment Penalty Terms*—Numeric indicator for types of prepayment penalties.

10. In subchapter G, revise part 956 to read as follows:

PART 956—FEDERAL HOME LOAN BANK INVESTMENTS

Sec.
956.1 Definitions.
956.2 Authorized investments.
956.3 Prohibited investments and prudential rules.
956.4 Risk-based capital requirement for investments.

Authority: 12 U.S.C. 1422a(a)(3), 1422b(a), 1431, 1436.

§ 956.1 Definitions.

As used in this part:

Deposits in banks or trust companies has the meaning set forth in § 969.3 of this chapter.

Financial Management Policy means the Financial Management Policy For The Federal Home Loan Bank System approved by the Finance Board pursuant to Finance Board Resolution No. 96–45 (July 3, 1996), as amended by Finance Board Resolution No. 96–90 (Dec, 6, 1996), Finance Board Resolution No. 97–05 (Jan. 14, 1997), and Finance Board Resolution No. 97–86 (Dec. 17, 1997).

GAAP means Generally Accepted Accounting Principles.

Investment grade means:

(1) A credit quality rating in one of the four highest credit rating categories by an NRSRO and not below the fourth highest credit rating category by any NRSRO; or

(2) If there is no credit quality rating by an NRSRO, a determination by a Bank that the issuer, asset or instrument is the credit equivalent of investment grade using credit rating standards available from an NRSRO or other similar standards.

NRSRO has the meaning set forth in § 966.1 of this chapter.

§ 956.2 Authorized investments.

In addition to assets enumerated in parts 950 and 955 of this chapter and subject to the applicable limitations set forth in this part and in part 980 of this chapter, each Bank may invest in:

(a) Obligations of the United States;

(b) Deposits in banks or trust companies;

(c) Obligations, participations or other instruments of, or issued by, the Federal National Mortgage Association or the Government National Mortgage Association;

(d) Mortgages, obligations, or other securities that are, or ever have been, sold by the Federal Home Loan Mortgage Corporation pursuant to 12 U.S.C. 1454 or 1455;

(e) Stock, obligations, or other securities of any small business investment company formed pursuant to 15 U.S.C. 681(d), to the extent such investment is made for purposes of aiding members of the Bank; and

(f) Instruments that the Bank has determined are permissible investments for fiduciary or trust funds under the laws of the state in which the Bank is located.

§ 956.3 Prohibited investments and prudential rules.

(a) *Prohibited investments.* A Bank may not invest in:

(1) Instruments that provide an ownership interest in an entity, except for investments described in §§ 940.3(a)(5) and (6) of this chapter;

(2) Instruments issued by non-United States entities, except United States branches and agency offices of foreign commercial banks;

(3) Debt instruments that are not rated as investment grade, except:

(i) Investments described in § 940.3(a)(5) of this chapter; and

(ii) Debt instruments that were downgraded to a below investment grade rating after acquisition by the Bank; or

(4) Whole mortgages or other whole loans, or interests in mortgages or loans, except:

(i) Acquired member assets;

(ii) Marketable direct obligations of state or local government units or agencies, having at least the second highest credit rating from a NRSRO, where the purchase of such obligations by the Bank provides to the issuer the customized terms, necessary liquidity, or favorable pricing required to generate needed funding for housing or community lending;

(iii) Mortgage-backed securities, or asset-backed securities collateralized by manufactured housing loans or home equity loans, that meet the definition of the term ''securities'' under 15 U.S.C. 77b(a)(1); and

(iv) Loans held or acquired pursuant to section 12(b) of the Act (12 U.S.C. 1432(b)).

(b) *Foreign currency or commodity positions prohibited.* A Bank may not take a position in any commodity or foreign currency. If a Bank participates in consolidated obligations denominated in a currency other than U.S. Dollars or linked to equity or commodity prices, the currency, commodity and equity risks must be hedged.

§ 956.4 Risk-based capital requirement for investments.

Each Bank shall hold retained earnings plus specific loan loss reserves as support for the credit risk of all investments that are not rated by a NRSRO, or are rated below the second highest credit rating, in an amount equal to or greater than the outstanding balance of the investments times a factor associated with the credit rating of the investments as determined by the Finance Board.

Dated: April 12, 2000.

By the Board of Directors of the Federal Housing Finance Board.

Bruce A. Morrison,

Chairman.

[FR Doc. 00–10909 Filed 5–2–00; 8:45 am]

BILLING CODE 6725–01–P

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 39

[Docket No. 2000–SW–05–AD]

Airworthiness Directives; Agusta S.p.A. Model A109A and A109A II Helicopters

AGENCY: Federal Aviation Administration, DOT.

ACTION: Notice of proposed rulemaking (NPRM).

SUMMARY: This document proposes the adoption of a new airworthiness directive (AD) applicable to Agusta S.p.A. Model A109A and A109A II helicopters. This proposal would require radiographic inspection of the internal surface of each main rotor blade spar (spar) for corrosion. This proposal is prompted by the discovery of corrosion on the internal surfaces of the spar in the area adjacent to the main rotor blade inertia balance weights. The actions specified by the proposed AD are intended to prevent failure of a main rotor blade due to corrosion on the internal surface of the spar and subsequent loss of control of the helicopter.

DATES: Comments must be received on or before July 3, 2000.

ADDRESSES: Submit comments in triplicate to the Federal Aviation Administration (FAA), Office of the Regional Counsel, Southwest Region, Attention: Rules Docket No. 2000-SW–