Farm Credit Administration § 615.5212

(d) Category 4: 100 Percent. This category includes all assets not specified in the categories above or below nor deducted dollar-for-dollar from capital and assets as discussed in §615.5210(c). This category comprises standard risk assets such as those typically found in a loan or lease portfolio and includes:

1. All other claims on private obligors.
2. Claims on, or portions of claims guaranteed by, non-OECD banks with a remaining maturity exceeding 1 year.
3. Claims on, or portions of claims guaranteed by, non-OECD central governments that are not included in paragraphs (a)(4) or (b)(4) of this section, and all claims on non-OECD state and local governments.
4. Industrial-development bonds and similar obligations issued under the auspices of states or political subdivisions of the OECD-based group of countries for the benefit of a private party or enterprise where that party or enterprise, not the government entity, is obligated to pay the principal and interest.
5. Premises, plant, and equipment; other fixed assets; and other real estate owned.
6. Recourse obligations, direct credit substitutes, residual interests (other than credit-enhancing interest-only strips) and asset-or mortgage-backed securities that are rated in the lowest investment grade category, e.g., BBB, in the case of long-term ratings, or the third highest rating category, e.g., A–3, P–3, in the case of short-term ratings.
7. Stripped mortgage-backed securities and similar instruments, such as interest-only strips that are not credit-enhancing and principal-only strips (including such instruments guaranteed by Government-sponsored agencies).
8. Investments in Rural Business Investment Companies.
9. If they have not already been deducted from capital:
   i. Investments in unconsolidated companies, joint ventures, or associated companies.
   ii. Deferred-tax assets.
   iii. Servicing assets.
10. All non-local currency claims on foreign central governments, as well as local currency claims on foreign central governments that are not included in any other category.
11. Claims on other financing institutions that do not otherwise qualify for a lower risk-weight category under this section; and
12. All other assets not specified above, including but not limited to leases and receivables.

(e) Category 5: 200 Percent. Recourse obligations, direct credit substitutes, residual interests (other than credit-enhancing interest-only strips) and asset-or mortgage-backed securities that are rated one category below the lowest investment grade category, e.g., BB.

§ 615.5212 Credit conversion factors—off-balance sheet items.

(a) The face amount of an off-balance sheet item is generally incorporated into risk-weighted assets in two steps. For most off-balance sheet items, the face amount is first multiplied by a credit conversion factor. (In the case of direct credit substitutes and recourse obligations the full amount of the assets enhanced are multiplied by a credit conversion factor). The resultant credit equivalent amount is assigned to the appropriate risk-weight category described in §615.5211 according to the obligor or, if relevant, the guarantor or the collateral.

(b) Conversion factors for various types of off-balance sheet items are as follows:

1. 0 Percent. (i) Unused commitments with an original maturity of 14 months or less;
   (ii) Unused commitments with an original maturity greater than 14 months if:
      A. They are unconditionally cancellable by the institution; and
      B. The institution has the contractual right to, and in fact does, make a separate credit decision based upon the borrower’s current financial condition before each drawing under the lending arrangement.

2. 20 Percent. Short-term, self-liquidating, trade-related contingencies, including but not limited to commercial letters of credit.
§ 615.5215 Distribution of earnings.

The boards of directors of System institutions may not reduce the permanent capital of the institution through the payment of patronage refunds or dividends, or the retirement of stock or allocated equities except retirements pursuant to §§ 615.5280 and 615.5290 if, after or due to the action, the permanent capital of the institution would

Conversion Factor Matrix

<table>
<thead>
<tr>
<th>Remaining maturity</th>
<th>Interest rate</th>
<th>Exchange rate</th>
<th>Commodity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year or less</td>
<td>0.0</td>
<td>1.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Over 1 to 5 years</td>
<td>0.5</td>
<td>5.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>1.5</td>
<td>7.5</td>
<td>15.0</td>
</tr>
</tbody>
</table>

(2) For any derivative contract that does not fall within one of the categories in the above table, the potential future credit exposure is to be calculated using the commodity conversion factors. The net current exposure for multiple derivative contracts with a single counterparty and subject to a qualifying bilateral netting contract is the net sum of all positive and negative mark-to-market values for each derivative contract. The positive sum of the net current exposure is added to the adjusted potential future credit exposure for the same multiple contracts with a single counterparty. The adjusted potential future credit exposure is computed as $A_{\text{net}} = (0.4 \times A_{\text{gross}}) + 0.6 (\text{NGR} \times A_{\text{gross}})$ where:

(i) $A_{\text{net}}$ is the adjusted potential future credit exposure;
(ii) $A_{\text{gross}}$ is the sum of potential future credit exposures determined by multiplying the notional principal amount by the appropriate credit conversion factor; and
(iii) NGR is the ratio of the net current credit exposure divided by the gross current credit exposure determined as the sum of only the positive mark-to-market values for each derivative contract with the single counterparty.

(3) Credit equivalents of single-currency floating/floating interest rate swaps are determined by their replacement cost (mark-to-market).

[70 FR 33331, June 17, 2005]