TABLE 3—COLLATERAL HAIRCUTS

	Residual maturity	Haircut without currency mismatch [1]
SOVEREIGN ENTITIES		
OECD Country Risk Classification [2] 0–1	<= 1 year	0.005
	>1 year, <= 5 years	0.02
	5 years	0.04
OECD Country Risk Classification 2–3	<= 1 year	0.01
	>1 year, <= 5 years	0.03
	5 years	0.06
CORPORATE AND MUNICIPAL BONDS THAT ARE BANK-ELIGIBLE INVESTMENTS		
	Residual maturity for debt securities	Haircut without currency mismatch
All	<= 1 year	0.02
All	>1 year, <= 5 years	0.06
All	> 5 years	0.12

OTHER ELIGIBLE COLLATERAL	
Main index [3] equities (including convertible bonds)	0.15
Other publicly traded equities (including convertible bonds)	0.25
Mutual funds	Highest haircut applicable to any security in which the fund can invest
Cash collateral held	0

[1] In cases where the currency denomination of the collateral differs from the currency denomination of the credit transaction, an addition 8 percent haircut will apply.
[2] OECD Country Risk Classification means the country risk classification as defined in Article 25 of the OECD's February 2011 Arrangement on Officially Supported Export Credits Arrangement.
[3] Main index means the Standard & Poor's 500 Index, the FTSE All-World Index, and any other index for which the covered company can demonstrate to the satisfaction of the Federal Reserve that the equities represented in the index have comparable liquidity, depth of market, and size of bid-ask spreads as equities in the Standard & Poor's 500 Index and FTSE All-World Index.

(2) *Mandatory use of Internal Model Method*. The appropriate Federal banking agency may require a national bank or savings association to use either the Internal Model Method set forth in paragraph (c)(1)(i) of this section or the Non-Model Method set forth in paragraph (c)(1)(ii) of this section to calculate the credit exposure of securities financing transactions if the appropriate Federal banking agency finds that such method is necessary to promote the safety and soundness of the bank or savings association.

[77 FR 37280, June 21, 2012]

APPENDIX A TO PART 32—INTERPRETATIONS

Section 1. Interrelation of General Limitation With Exception for Loans To Develop Domestic Residential Housing Units

1. The §32.3(d)(2) exception for loans to one borrower to develop domestic residential housing units is characterized in the regulation as an ''alternative'' limit. This exceptional $30,000,000 or 30 percent limitation does not operate in addition to the 15 percent General Limitation or the 10 percent additional amount a savings association may loan to one borrower secured by readily marketable collateral, but serves as the uppermost limitation on a savings association's lending to any one person once a savings association employs this exception.

Example: Savings Association A's lending limitation as calculated under the 15 percent General Limitation is $800, 000. If Savings Association A lends Y $800,000 for commercial purposes, Savings Association A cannot lend Y an additional $1,600,000, or 30 percent of capital and surplus, to develop residential housing units under the paragraph §32.3(d)(2) exception. The §32.3(d)(2) exception operates as the uppermost limitation on all lending to one borrower (for savings associations that may employ this exception) and includes any amounts loaned to the same borrower under the General Limitation. Savings Association A, therefore, may lend only an additional $800,000 to Y, provided §32.3(d)(2) prerequisites have been met. The amount loaned

under the authority of the General Limitation ($800,000), when added to the amount loaned under the exception ($800,000), yields a sum that does not exceed the 30 percent uppermost limitation ($1,600,000).

2. a. This result does not change even if the facts are altered to assume that some or all of the $800,000 amount of lending permissible under the General Limitation's 15 percent basket is not used, or is devoted to the development of domestic residential housing units.

b. In other words, using the above example, if Savings Association A lends Y $400,000 for commercial purposes and $300,000 for residential purposes—both of which would be permitted under its $800,000 General Limitation—Savings Association A's remaining permissible lending to Y would be: first, an additional $100,000 under the General Limitation, and then another $800,000 to develop domestic residential housing units if the savings association meets the paragraph §32.3(d)(2) prerequisites. (The latter is $800,000 because in no event may the total lending to Y exceed 30 percent of unimpaired capital and unimpaired surplus). If Savings Association A did not lend Y the remaining $100,000 permissible under the General Limitation, its permissible loans to develop domestic residential housing units under §32.3(d)(2) would be $900,000 instead of $800,000 (the total loans to Y would still equal $1,600,000).

3. In short, under the §32.3(d)(2) exception, the 30 percent or $30,000,000 limit will always operate as the uppermost limitation, unless the savings association does not avail itself of the exception and merely relies upon its General Limitation.

Section 2. Interrelationship Between the General Limitation and the 150 Percent Aggregate Limit on Loans to All Borrowers To Develop Domestic Residential Housing Units

Numerous questions have been received regarding the allocation of loans between the different lending limit ''baskets,'' *i.e.*, the 15 percent General Limitation basket and the 30 percent Residential Development basket. In general, the inquiries concern the manner in which a savings association may ''move'' a loan from the General Limitation basket to the Residential Development basket. The following example is intended to provide guidance:

Example: Savings Association A's General Limitation under §32.3(a) is $15 million. In January, Savings Association A makes a $10 million loan to Borrower to develop domestic residential housing units. At the time the loan was made, Savings Association A had not received approval under an order issued by the appropriate Federal banking agency to avail itself of the residential development exception to lending limits. Therefore, the $10 million loan is made under Savings Association A's General Limitation.

2. In June, Savings Association A receives authorization to lend under the Residential Development exception. In July, Savings Association A lends $3 million to Borrower to develop domestic residential housing units. In August, Borrower seeks an additional $12 million commercial loan from Savings Association A. Savings Association A cannot make the loan to Borrower, however, because it already has an outstanding $10 million loan to Borrower that counts against Savings Association A's General Limitation of $15 million. Thus, Savings Association A may lend only up to an additional $5 million to Borrower under the General Limitation.

3. However, Savings Association A may be able to reallocate the $10 million loan it made to Borrower in January to its Residential Development basket provided that: (1) Savings Association A has obtained authority under an order issued by the appropriate Federal banking agency to avail itself of the additional lending authority for residential development and maintains compliance with all prerequisites to such lending authority; (2) the original $10 million loan made in January constitutes a loan to develop domestic residential housing units as defined; and (3) the housing unit(s) constructed with the funds from the January loan remain in a stage of ''development'' at the time Savings Association A reallocates the loan to the domestic residential housing basket. The project must be in a stage of acquisition, development, construction, rehabilitation, or conversion in order for the loan to be reallocated.

4. If Savings Association A is able to reallocate the $10 million loan made to Borrower in January to its Residential Development basket, it may make the $12 million commercial loan requested by Borrower in August. Once the January loan is reallocated to the Residential Development basket, however, the $10 million loan counts towards Savings Association A's 150 percent aggregate limitation on loans to all borrowers under the residential development basket (§32.3(d)(2)).

5. If Savings Association A reallocates the January loan to its domestic residential housing basket and makes an additional $12 million commercial loan to Borrower, Savings Association A's totals under the respective limitations would be: $12 million under the General Limitation; and $13 million under the Residential Development limitation. The full $13 million residential development loan counts toward Savings Association A's aggregate 150 percent limitation.

[77 FR 37282, June 21, 2012]

PART 33 [RESERVED]