under the supplemental lending limits in paragraphs (a)(1), (2), and (3) of this section, provided the bank or savings association remains an ''eligible bank'' or ''eligible savings association.''

(d) *Discretionary termination of authority.* The appropriate Federal banking agency may rescind a bank's or savings association's authority to use the supplemental lending limits in paragraphs (a)(1), (2), and (3) of this section based upon concerns about credit quality, undue concentrations in the bank's or savings association's portfolio of residential real estate, small business, or small farm loans, or concerns about the bank's or savings association's overall credit risk management systems and controls. The bank or savings association must cease making new loans or extensions of credit in reliance on the supplemental lending limits upon receipt of written notice from the appropriate Federal banking agency that its authority has been rescinded.

(e) *Existing loans.* Any loans or extensions of credit made by a bank or savings association under the supplemental lending limits in paragraphs (a)(1), (2), and (3) of this section, that were in compliance with this section when made, will not be deemed a lending limit violation and will not be treated as nonconforming under § 32.6.

[66 FR 31120, June 11, 2001, as amended at 69 FR 32436, June 10, 2004; 69 FR 51357, Aug. 19, 2004; 72 FR 31444, June 7, 2007; 77 FR 37279, June 21, 2012]

§ 32.8 Temporary funding arrangements in emergency situations.

In addition to the amount that a national bank or savings association may lend to one borrower under § 32.3 of this part, an eligible bank or eligible savings association with the written approval of the appropriate Federal banking agency may make loans and extensions of credit to one borrower subject to a special temporary lending limit established by the appropriate Federal banking agency, where the appropriate Federal banking agency determines that such loans and extensions of credit are essential to address an emergency situation, such as critical financial markets stability, will be of short duration, will be reduced in amount in a timeframe and manner acceptable to the appropriate Federal banking agency, and do not present unacceptable risk. In granting approval for such a special temporary lending limit, the appropriate Federal banking agency will impose supervisory oversight and reporting measures that it determines are appropriate to monitor compliance with the foregoing standards as set forth in this paragraph.

[73 FR 14924, Mar. 20, 2008, as amended at 77 FR 37280, June 21, 2012]

§ 32.9 Credit exposure arising from derivative and securities financing transactions.

(a) *Scope.* This section sets forth the rules for calculating the credit exposure arising from a derivative transaction or a securities financing transaction entered into by a national bank or savings association for purposes of determining the bank's or savings association's lending limit pursuant to 12 U.S.C. 84 or 12 U.S.C. 1464(u), as applicable, and this part.

(b) *Derivative transactions*—(1) *Noncredit derivatives.* Subject to paragraphs (b)(2) and (b)(3) of this section, a national bank or savings association shall calculate the credit exposure to a counterparty arising from a derivative transaction by one of the following methods. Subject to paragraph (b)(3) of this section, a national bank or savings association shall use the same method for calculating counterparty credit exposure arising from all of its derivative transactions.

(i) *Internal Model Method*—(A) *Credit exposure.* The credit exposure of a derivative transaction under the Internal Model Method shall equal the sum of the current credit exposure of the derivative transaction and the potential future credit exposure of the derivative transaction.

(B) *Calculation of current credit exposure.* A bank or savings association shall determine its current credit exposure by the mark-to-market value of the derivative contract. If the mark-to-market value is positive, then the current credit exposure equals that mark-to-market value. If the mark to market value is zero or negative, than the current credit exposure is zero.

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(C) *Calculation of potential future credit exposure.* A bank or savings association shall calculate its potential future credit exposure by using an internal model that has been approved for purposes of 12 CFR part 3, appendix C, section 53, 12 CFR part 167, appendix C, section 53, or 12 CFR part 390, subpart Z, appendix A, section 53, as appropriate, or any other appropriate model approved by the appropriate Federal banking agency.

(D) *Net credit exposure.* A bank or savings association that calculates its credit exposure by using the Internal Model Method pursuant to this paragraph (b)(1)(i) may net credit exposures of derivative transactions arising under the same qualifying master netting agreement.

(ii) *Conversion Factor Matrix Method.* The credit exposure arising from a derivative transaction under the Conversion Factor Matrix Method shall equal and remain fixed at the potential future credit exposure of the derivative transaction as determined at the execution of the transaction by reference to Table 1 of this section.

TABLE 1—CONVERSION FACTOR MATRIX FOR CALCULATING POTENTIAL FUTURE CREDIT EXPOSURE [1]

Original maturity [2]	Interest rate	Foreign exchange rate and gold	Equity	Other [3] (includes commodities and precious metals except gold)
1 year or less	.015	.015	.20	.06
Over 1 to 3 years	.03	.03	.20	.18
Over 3 to 5 years	.06	.06	0.20	0.30
Over 5 to 10 years	.12	.12	0.20	.60
Over ten years	.30	.30	.20	1.0

[1] For an OTC derivative contract with multiple exchanges of principal, the conversion factor is multiplied by the number of remaining payments in the derivative contract.

[2] For an OTC derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the market value of the contract is zero, the remaining maturity equals the time until the next reset date. For an interest rate derivative contract with a remaining maturity of greater than one year that meets these criteria, the minimum conversion factor is 0.005.

[3] Transactions not explicitly covered by any other column in the Table are to be treated as "Other."

(iii) *Remaining Maturity Method.* The credit exposure arising from a derivative transaction under the Remaining Maturity Method shall equal the greater of zero or the sum of the current mark-to-market value of the derivative transaction added to the product of the notional amount of the transaction, the remaining maturity in years of the transaction, and a fixed multiplicative factor determined by reference to Table 2 of this section.

TABLE 2—REMAINING MATURITY FACTOR FOR CALCULATING CREDIT EXPOSURE

	Interest rate	Foreign exchange rate and gold	Equity	Other [1] (includes commodities and precious metals except gold)
Multiplicative Factor	1.5%	1.5%	6%	6%

[1] Transactions not explicitly covered by any other column in the Table are to be treated as "Other."

(2) *Credit Derivatives.* (i) Notwithstanding paragraph (b)(1) of this section, a national bank or savings association that uses the Conversion Factor Matrix Method or Remaining Maturity Method, or that uses the Internal Model Method without entering an effective margining arrangement as defined in §32.2(l), shall calculate the counterparty credit exposure arising from credit derivatives entered by the bank or savings association by adding the net notional value of all protection purchased from the counterparty on each reference entity.

(ii) A national bank or savings association shall calculate the credit exposure to a reference entity arising from credit derivatives entered by the bank or savings association by adding the

notional value of all protection sold on the reference entity. However, the bank or savings association may reduce its exposure to a reference entity by the amount of any eligible credit derivative purchased on that reference entity from an eligible protection provider.

(3) *Mandatory use of Internal Model Method.* The appropriate Federal banking agency may require a national bank or savings association to use the Internal Model Method set forth in paragraph (b)(1)(i) of this section, the Conversion Factor Matrix Method set forth in paragraph (b)(1)(ii) of this section, or the Remaining Maturity Method set forth in paragraph (b)(1)(iii) of this section to calculate the credit exposure of derivative transactions if it finds that such method is necessary to promote the safety and soundness of the bank or savings association.

(c) *Securities financing transactions—* (1) *In general.* Except as provided by paragraph (c)(2) of this section, a national bank or savings association shall calculate the credit exposure arising from a securities financing transaction by one of the following methods. A national bank or savings association shall use the same method for calculating credit exposure arising from all of its securities financing transactions.

(i) *Internal Model Method.* A national bank or savings association may calculate the credit exposure of a securities financing transaction by using an internal model approved by the appropriate Federal banking agency for purposes of 12 CFR part 3, appendix C, section 32(d), 12 CFR part 167, appendix C, section 32(d), or 12 CFR part 390, subpart Z, appendix A, section 32(d), as appropriate, or any other appropriate model approved by the appropriate Federal banking agency.

(ii) *Non-Model Method.* A national bank or savings association may calculate the credit exposure of a securities financing transaction as follows:

(A) *Repurchase agreement.* The credit exposure arising from a repurchase agreement shall equal and remain fixed at the market value at execution of the transaction of the securities transferred to the other party less cash received.

(B) *Securities lending—(1) Cash collateral transactions.* The credit exposure arising from a securities lending transaction where the collateral is cash shall equal and remain fixed at the market value at execution of the transaction of securities transferred less cash received.

(*2*) *Non-cash collateral transactions.* The credit exposure arising from a securities lending transaction where the collateral is other securities shall equal and remain fixed as the product of the higher of the two haircuts associated with the two securities, as determined in Table 3 of this section, and the higher of the two par values of the securities.

(C) *Reverse repurchase agreements.* The credit exposure arising from a reverse repurchase agreement shall equal and remain fixed as the product of the haircut associated with the collateral received, as determined in Table 3 of this section, and the amount of cash transferred.

(D) *Securities borrowing—(1) Cash collateral transactions.* The credit exposure arising from a securities borrowed transaction where the collateral is cash shall equal and remain fixed as the product of the haircut on the collateral received, as determined in Table 3 of this section, and the amount of cash transferred to the other party.

(*2*) *Non-cash collateral transactions.* The credit exposure arising from a securities borrowed transaction where the collateral is other securities shall equal and remain fixed as the product of the higher of the two haircuts associated with the two securities, as determined in Table 3 of this section, and the higher of the two par values of the securities.

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

	Residual maturity for debt securities	Haircut without currency mismatch
CORPORATE AND MUNICIPAL BONDS THAT ARE BANK-ELIGIBLE INVESTMENTS		
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