Title 12—Banks and Banking

(This book contains part 900 to 1025)

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SUBCHAPTER A—GENERAL DEFINITIONS

PART 900—GENERAL DEFINITIONS APPLYING TO ALL FINANCE BOARD REGULATIONS

Sec. 900.1 Basic terms relating to the Finance Board, the Bank System and related entities.
900.2 Terms relating to Bank operations, mission and supervision.
900.3 Terms relating to other entities and concepts used throughout 12 CFR chapter IX.

SOURCE: 67 FR 12842, Mar. 20, 2002, unless otherwise noted.

§ 900.1 Basic terms relating to the Finance Board, the Bank System and related entities.

As used throughout this chapter, the following basic terms relating to the Finance Board, the Bank System and related entities have the meanings set forth below, unless otherwise indicated in a particular subchapter, part, section, or paragraph:


Bank System means the Federal Home Loan Bank System, consisting of the 12 Banks and the Office of Finance.

Board of Directors, written in title case, means the Board of Directors of the Federal Housing Finance Board; the term board of directors, written in lower case, has the meaning indicated in context.

Chairperson means the Chairperson of the Board of Directors of the Finance Board.

Executive Secretary means an employee within the Office of Management of the Finance Board who is responsible for records management.


Financing Corporation or FICO means the Financing Corporation established and supervised by the Finance Board under section 21 of the Act (12 U.S.C. 1441) and part 995 of this chapter.

Housing associate means an entity that has been approved as a housing associate pursuant to part 926 of this chapter.

Member means an institution that has been approved for membership in a Bank and has purchased capital stock in the Bank in accordance with §§ 925.20 or 925.24(b) of this chapter.

Office of Finance or OF means the Office of Finance, a joint office of the Banks referred to in section 2B of the Act (12 U.S.C. 1422b) and established under part 985 of this chapter.

Resolution Funding Corporation or REFCORP means the Resolution Funding Corporation established by section 21B of the Act (12 U.S.C. 1441b) and addressed in parts 996 and 997 of this chapter.

Secretary to the Board means employees within the Office of General Counsel of the Finance Board who are responsible for issues concerning meetings of the Board of Directors.


§ 900.2 Terms relating to Bank operations, mission and supervision.

As used throughout this chapter, the following terms relating to Bank operations, mission and supervision have the meanings set forth below, unless otherwise indicated in a particular subchapter, part, section or paragraph:

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

Advance means a loan from a Bank that is:
(1) Provided pursuant to a written agreement;
(2) Supported by a note or other written evidence of the borrower’s obligation; and
(3) Fully secured by collateral in accordance with the Act and part 950 of this chapter.

Affordable Housing Program or AHP means the Affordable Housing Program, the CICA program that each Bank is required to establish pursuant
§ 900.3 to section 10(j) of the Act (12 U.S.C. 1430(j)) and part 951 of this chapter.

Capital plan means the capital structure plan required for each Bank by section 6(b) of the Act, as amended (12 U.S.C. 1426(b)), and part 933 of this chapter, as approved by the Finance Board, unless the context of the regulation refers to the capital plan prior to its approval by the Finance Board.

CIP means the Community Investment Program, an advance program under CICA required to be offered pursuant to section 10(i) of the Act (12 U.S.C. 1430(i)).

Community Investment Cash Advance or CICA means any advance made through a program offered by a Bank under section 10 of the Act (12 U.S.C. 1430) and parts 951 and 952 of this chapter to provide funding for targeted community lending and affordable housing, including advances made under a Bank's Rural Development Funding (RDF) program, offered under section 10(j)(10) of the Act (12 U.S.C. 1430(j)(10)); a Bank's Urban Development Funding (UDF) program, offered under section 10(j)(10) of the Act (12 U.S.C. 1430(j)(10)); a Bank's Affordable Housing Program (AHP), offered under section 10(j) of the Act (12 U.S.C. 1430(j)); a Bank's Community Investment Program (CIP), offered under section 10(i) of the Act (12 U.S.C. 1430(i)); or any other program offered by a Bank that meets the requirements of part 952 of this chapter.

Community lending means providing financing for economic development projects for targeted beneficiaries, and, for community financial institutions (as defined in §925.1 of this chapter), purchasing or funding small business loans, small farm loans or small agribusiness loans (as defined in §950.1 of this chapter).

Consolidated obligation or CO means any bond, debenture, or note authorized under part 966 of this chapter to be issued jointly by the Banks pursuant to section 11(a) of the Act, as amended (12 U.S.C. 1431(a)), or any bond or note issued by the Finance Board on behalf of all Banks pursuant to section 11(c) of the Act (12 U.S.C. 1431(c)), on which the Banks are jointly and severally liable.

Data Reporting Manual or DRM means a manual issued by the Finance Board and amended from time to time containing reporting requirements for the Banks.

Excess stock means that amount of a Bank's capital stock owned by a member or other institution in excess of that member's or other institution's minimum investment in capital stock required under the Bank's capital plan, the Act, or the Finance Board's regulations, as applicable.


§ 900.3 Terms relating to other entities and concepts used throughout 12 CFR chapter IX.

As used throughout this chapter, the following terms relating to other entities and concepts used throughout 12 CFR chapter IX have the meanings set forth below, unless otherwise indicated in a particular subchapter, part, section or paragraph:

Appropriate Federal banking agency has the meaning set forth in section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. 1813(q)) and, for federally-insured credit unions, means the NCUA.

Appropriate state regulator means any state officer, agency, supervisor or other entity that has regulatory authority over, or is empowered to institute enforcement action against, a particular institution.


FDIC means the Federal Deposit Insurance Corporation.

FRB means the Board of Governors of the Federal Reserve System.
Freddie Mac means the Federal Home Loan Mortgage Corporation established under authority of the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1451, et seq.).

Generally Accepted Accounting Principles or GAAP means accounting principles generally accepted in the United States.


GLB Act means the Gramm-Leach-Bliley Act (Pub. L. 106–102 (1999)).

HUD means the United States Department of Housing and Urban Development.

NCUA means the National Credit Union Administration.

NRSRO means a credit rating organization regarded as a Nationally Recognized Statistical Rating Organization by the Securities and Exchange Commission.

OCC means the Office of the Comptroller of the Currency.

OTS means the Office of Thrift Supervision.


SEC means the United States Securities and Exchange Commission.

State means a state of the United States, American Samoa, the Commonwealth of the Northern Mariana Islands, the District of Columbia, Guam, Puerto Rico, or the United States Virgin Islands.


PART 906—OPERATIONS

Subpart A [Reserved]

Subpart B—Monthly Interest Rate Survey (MIRS)

Sec. 906.5 Monthly interest rate survey.

Subpart C [Reserved]


SOURCE: 70 FR 9509, Feb. 28, 2005, unless otherwise noted.

Subpart A [Reserved]

Subpart B—Monthly Interest Rate Survey (MIRS)

§ 906.5 Monthly interest rate survey.

The Finance Board conducts its Monthly Survey of Rates and Terms on Conventional One-Family Non-farm Mortgage Loans in the following manner:

(a) Initial survey. Each month, the Finance Board samples savings institutions, commercial banks, and mortgage loan companies, and asks them to report the terms and conditions on all conventional mortgages (i.e., those not federally insured or guaranteed) used to purchase single-family homes that each such lender closes during the last five working days of the month. In most cases, the information is reported electronically in a format similar to Finance Board Form FHFB 10-91. The initial weights are based on lender type and lender size. The data also is weighted so that the pattern of weighted responses matches the actual pattern of mortgage originations by lender type and by region. The Finance Board tabulates the data and publishes standard data tables late in the following month.

(b) Adjustable-rate mortgage index. The weighted data, tabulated and published pursuant to paragraph (a) of this section, is used to compile the Finance Board’s adjustable-rate mortgage index, entitled the “National Average Contract Mortgage Rate for the Purchase of Previously Occupied Homes by Combined Lenders.” This index is the successor to the index maintained by the former Federal Home Loan Bank Board and is used for determining the movement of the interest rate on re-negotiable-rate mortgages and on some other adjustable-rate mortgages.

Subpart C [Reserved]
PART 930—DEFINITIONS APPLYING TO RISK MANAGEMENT AND CAPITAL REGULATIONS

AUTHORITY: 12 U.S.C. 1422a(a)(3), 1422b(a), 1436(a), 1440, 1443, and 1446.

§930.1 Definitions.

As used in this subchapter:

Affiliated counterparty means a counterparty of a Bank that controls, is controlled by or is under common control with another counterparty of the Bank. For the purposes of this definition only, direct or indirect ownership (including beneficial ownership) of more than 50 percent of the voting securities or voting interests of an entity constitutes control.

Certain drawdown means a legally binding agreement that commits the Bank to make an advance or acquire a loan, at or by a specified future date.

Charges against the capital of the Bank means an other than temporary decline in the Bank’s total equity that causes the value of total equity to fall below the Bank’s aggregate capital stock amount.

Class A stock means capital stock issued by a Bank, including subclasses, that has the characteristics specified by §931.1(a) of this subchapter.

Class B stock means capital stock issued by a Bank, including subclasses, that has the characteristics specified by §931.1(b) of this subchapter.

Contingency liquidity means the sources of cash a Bank may use to meet its operational requirements when its access to the capital markets is impeded, and includes:

1. Marketable assets with a maturity of one year or less;
2. Self-liquidating assets with a maturity of seven days or less;
3. Assets that are generally accepted as collateral in the repurchase agreement market; and
4. Irrevocable lines of credit from financial institutions rated not lower than the second highest credit rating category by an NRSRO.

Credit derivative contract means a derivative contract that transfers credit risk.

Credit risk means the risk that the market value, or estimated fair value if market value is not available, of an obligation will decline as a result of deterioration in creditworthiness.

Derivative contract means generally a financial contract the value of which is derived from the values of one or more underlying assets, reference rates, or indices of asset values, or credit-related events. Derivative contracts include interest rate, foreign exchange rate, equity, precious metals, commodity, and credit contracts, and any other instruments that pose similar risks.

Exchange rate contracts include cross-currency interest-rate swaps, forward foreign exchange rate contracts, currency options purchased, and any similar instruments that give rise to similar risks.

General allowance for losses means an allowance established by a Bank in accordance with GAAP for losses, but which does not include any amounts held against specific assets of the Bank.

Government Sponsored Enterprise, or GSE, means a United States Government-sponsored agency or instrumentality originally established or chartered to serve public purposes specified by the United States Congress, but whose obligations are not obligations of the United States and are not guaranteed by the United States.

Interest rate contracts include, single currency interest-rate swaps, basis swaps, forward rate agreements, interest-rate options, and any similar instrument that gives rise to similar risks, including when-issued securities.

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 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.

Market risk means the risk that the market value, or estimated fair value if market value is not available, of a Bank’s portfolio will decline as a result of changes in interest rates, foreign exchange rates, equity and commodity prices.

Marketable means, with respect to an asset, that the asset can be sold with reasonable promptness at a price that corresponds reasonably to its fair value.

Market value at risk is the loss in the market value of a Bank’s portfolio measured from a base line case, where the loss is estimated in accordance with §932.5 of this chapter.

Minimum investment means the minimum amount of Class A and/or Class B stock that a member is required to own in order to be a member of a Bank and in order to obtain advances and to engage in other business activities with the Bank in accordance with §931.3 of this chapter.

Operations risk means the risk of an unexpected loss to a Bank resulting from human error, fraud, unenforceability of legal contracts, or deficiencies in internal controls or information systems.

Permanent capital means the retained earnings of a Bank, determined in accordance with GAAP, plus the amount paid-in for the Bank’s Class B stock.

Redeem or Redemption means the acquisition by a Bank of its outstanding Class A or Class B stock at par value following the expiration of the six-month or five-year statutory redemption period, respectively, for the stock.

Regulatory risk-based capital requirement means the amount of permanent capital that a Bank is required to maintain in accordance with §932.3 of this chapter.

Regulatory total capital requirement means the amount of total capital that a Bank is required to maintain in accordance with §932.2 of this chapter.

Repurchase means the acquisition by a Bank of excess stock prior to the expiration of the six-month or five-year statutory redemption period for the stock.

Repurchase agreement means an agreement between a seller and a buyer whereby the seller agrees to repurchase a security or similar securities at an agreed upon price, with or without a stated time for repurchase.

Sales of federal funds subject to a continuing contract means an overnight federal funds loan that is automatically renewed each day unless terminated by either the lender or the borrower.

Total assets means the total assets of a Bank, as determined in accordance with GAAP.

Total capital of a Bank means the sum of permanent capital, the amounts paid-in for Class A stock, the amount of any general allowance for losses, and the amount of other instruments identified in a Bank’s capital plan that the Finance Board has determined to be available to absorb losses incurred by such Bank.

Walkaway clause means a provision in a bilateral netting contract that permits a nondefaulting counterparty to make a lower payment than it would make otherwise under the bilateral netting contract, or no payment at all, to a defaulter or the estate of a defaulter, even if the defaulter or the estate of the defaulter is a net creditor under the bilateral netting contract.


PART 932—FEDERAL HOME LOAN BANK CAPITAL REQUIREMENTS

Sec.
932.1 Risk management.
932.2 Total capital requirement.
932.3 Risk-based capital requirement.
932.4 Credit risk capital requirement.
932.5 Market risk capital requirement.
932.6 Operations risk capital requirement.
932.7 Reporting requirements.
932.8 Minimum liquidity requirements.
932.9 Limits on unsecured extensions of credit to one counterparty or affiliated counterparties; reporting requirements for total extensions of credit to one
§ 932.1 Risk management.

Before its new capital plan may take effect, each Bank shall obtain the approval of the Finance Board for the internal market risk model or the internal cash flow model used to calculate the market risk component of its risk-based capital requirement, and for the risk assessment procedures and controls (whether established as part of its risk management policy or otherwise) to be used to manage its credit, market, and operations risks.

§ 932.2 Total capital requirement.

Each Bank shall maintain at all times:

(a) Total capital in an amount at least equal to 4.0 percent of the Bank’s total assets; and

(b) A leverage ratio of total capital to total assets of at least 5.0 percent of the Bank’s total assets. For purposes of determining the leverage ratio, total capital shall be computed by multiplying the Bank’s permanent capital by 1.5 and adding to this product all other components of total capital.

[76 FR 11674, Mar. 3, 2011]

§ 932.3 Risk-based capital requirement.

Each Bank shall maintain at all times permanent capital in an amount at least equal to the sum of its credit risk capital requirement, its market risk capital requirement, and its operations risk capital requirement, calculated in accordance with §§932.4, 932.5 and 932.6, respectively.

[76 FR 11674, Mar. 3, 2011]

§ 932.4 Credit risk capital requirement.

(a) General requirement. Each Bank’s credit risk capital requirement shall be equal to the sum of the Bank’s credit risk capital charges for all assets, off-balance sheet items and derivative contracts.

(b) Credit risk capital charge for assets. Except as provided in paragraph (i) of this section, each Bank’s credit risk capital charge for an asset shall be equal to the book value of the asset multiplied by the credit risk percentage requirement assigned to that asset pursuant to paragraph (e)(2) of this section.

(c) Credit risk capital charge for off-balance sheet items. Each Bank’s credit risk capital charge for an off-balance sheet item shall be equal to the credit equivalent amount of such item, as determined pursuant to paragraph (f) of this section multiplied by the credit risk percentage requirement assigned to that item pursuant to paragraph (e)(2) of this section, except that the credit risk percentage requirement applied to the credit equivalent amount for a stand-by letter of credit shall be that for an advance with the same remaining maturity as that stand-by letter of credit.

(d) Credit risk capital charge for derivative contracts—(1) Derivative contracts with non-member counterparties. Except as provided in paragraph (j) of this section, each Bank’s credit risk capital charge for a specific derivative contract entered into between a Bank and a non-member institution shall equal the sum of:

(i) The current credit exposure for the derivative contract, calculated in accordance with paragraph (g) or (h) of this section, as applicable, multiplied by the credit risk percentage requirement assigned to that derivative contract pursuant to paragraph (e)(2) of this section, provided that:

(A) The remaining maturity of the derivative contract shall be deemed to be less than one year for the purpose of applying Table 1.1 or 1.3 of this part; and

(B) Any collateral held against an exposure from the derivative contract shall be applied to reduce the portion of the credit risk capital charge corresponding to the current credit exposure in accordance with the requirements of paragraph (e)(2)(ii)(B) of this section; plus

(ii) The potential future credit exposure for the derivative contract calculated in accordance with paragraph (g) or (h) of this section, as applicable,
multiplied by the credit risk percentage requirement assigned to that derivative contract pursuant to paragraph (e)(2) of this section, where the actual remaining maturity of the derivative contract is used to apply Table 1.1 or Table 1.3 of this part.

(2) Derivative contracts with a member. Except as provided in paragraph (j) of this section, the credit risk capital charge for any derivative contract entered into between a Bank and one of its member institutions shall be calculated in accordance with paragraph (d)(1) of this section. However, the credit risk percentage requirements used in the calculations shall be found in Table 1.1 of this part, which sets forth the credit risk percentage requirements for advances.

(e) Determination of credit risk percentage requirements—(1) Finance Board determination of credit risk percentage requirements. The Finance Board shall determine, and update periodically, the credit risk percentage requirements set forth in Tables 1.1 through 1.4 of this part applicable to a Bank's assets, off-balance sheet items, and derivative contracts.

(2) Bank determination of credit risk percentage requirements. (i) Each Bank shall determine the credit risk percentage requirement applicable to each asset, each off-balance sheet item and each derivative contract by identifying the category set forth in Table 1.1, Table 1.2, Table 1.3 or Table 1.4 of this part to which the asset, item or derivative belongs, given, if applicable, its demonstrated credit rating and remaining maturity (as determined in accordance with paragraphs (e)(2)(ii) and (e)(2)(iii) of this section). The applicable credit risk percentage requirement for an asset, off-balance sheet item or derivative contract shall be used to calculate the credit risk capital charge for such asset, item, or derivative contract in accordance with paragraphs (b), (c) or (d) of this section respectively. The relevant categories and credit risk percentage requirements are provided in the following Tables 1.1 through 1.4 of this part:

TABLE 1.1—REQUIREMENT FOR ADVANCES

<table>
<thead>
<tr>
<th>Type of advances</th>
<th>Percentage applicable to advances</th>
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<tr>
<td>Advances with:</td>
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<tr>
<td>Remaining maturity &lt;= 4 years</td>
<td>0.07</td>
</tr>
<tr>
<td>Remaining maturity &gt; 4 years to 7 years</td>
<td>0.20</td>
</tr>
<tr>
<td>Remaining maturity &gt; 7 years to 10 years</td>
<td>0.30</td>
</tr>
<tr>
<td>Remaining maturity &gt; 10 years</td>
<td>0.35</td>
</tr>
</tbody>
</table>

TABLE 1.2—REQUIREMENT FOR RATED RESIDENTIAL MORTGAGE ASSETS

<table>
<thead>
<tr>
<th>Type of residential mortgage asset</th>
<th>Percentage applicable to residential mortgage assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest Investment Grade</td>
<td>0.37</td>
</tr>
<tr>
<td>Second Highest Investment Grade</td>
<td>0.60</td>
</tr>
<tr>
<td>Third Highest Investment Grade</td>
<td>0.86</td>
</tr>
<tr>
<td>Fourth Highest Investment Grade</td>
<td>1.20</td>
</tr>
<tr>
<td>If Downgraded to Below Investment Grade After Acquisition By Bank:</td>
<td></td>
</tr>
<tr>
<td>Highest Below Investment Grade</td>
<td>2.40</td>
</tr>
<tr>
<td>Second Highest Below Investment Grade</td>
<td>4.80</td>
</tr>
<tr>
<td>All Other Below Investment Grade</td>
<td>34.00</td>
</tr>
<tr>
<td>Subordinated Classes of Mortgage Assets:</td>
<td></td>
</tr>
<tr>
<td>Highest Investment Grade</td>
<td>0.37</td>
</tr>
<tr>
<td>Second Highest Investment Grade</td>
<td>0.60</td>
</tr>
<tr>
<td>Third Highest Investment Grade</td>
<td>1.60</td>
</tr>
<tr>
<td>Fourth Highest Investment Grade</td>
<td>4.45</td>
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<tr>
<td>If Downgraded to Below Investment Grade After Acquisition By Bank:</td>
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<tr>
<td>Highest Below Investment Grade</td>
<td>13.00</td>
</tr>
<tr>
<td>Second Highest Below Investment Grade</td>
<td>34.00</td>
</tr>
<tr>
<td>All Other Below Investment Grade</td>
<td>100.00</td>
</tr>
</tbody>
</table>

TABLE 1.3—REQUIREMENT FOR RATED ASSETS OR RATED ITEMS OTHER THAN ADVANCES OR RESIDENTIAL MORTGAGE ASSETS

[Based on remaining maturity]

<table>
<thead>
<tr>
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<th>Applicable percentage</th>
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<tbody>
<tr>
<td></td>
<td>≤1 year</td>
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<tr>
<td>U.S. Government Securities</td>
<td>0.00</td>
</tr>
<tr>
<td>Highest Investment Grade</td>
<td>0.15</td>
</tr>
<tr>
<td>Second Highest Investment Grade</td>
<td>0.20</td>
</tr>
<tr>
<td>Third Highest Investment Grade</td>
<td>0.70</td>
</tr>
<tr>
<td>Fourth Highest Investment Grade</td>
<td>2.50</td>
</tr>
<tr>
<td>If Downgraded Below Investment Grade After Acquisition by Bank:</td>
<td></td>
</tr>
<tr>
<td>Highest Below Investment Grade</td>
<td>20.00</td>
</tr>
<tr>
<td>Second Highest Below Investment Grade</td>
<td>26.00</td>
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</table>
TABLE 1.3—REQUIREMENT FOR RATED ASSETS OR RATED ITEMS OTHER THAN ADVANCES OR RESIDENTIAL MORTGAGE ASSETS—Continued

<table>
<thead>
<tr>
<th>Applicable percentage</th>
<th>≤1 year</th>
<th>&gt;1 yr to 3 yrs</th>
<th>&gt;3 yrs to 7 yrs</th>
<th>&gt;7 yrs to 10 yrs</th>
<th>&gt;10 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Other</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

TABLE 1.4—REQUIREMENT FOR UNRATED ASSETS

<table>
<thead>
<tr>
<th>Type of unrated asset</th>
<th>Applicable percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0.00</td>
</tr>
<tr>
<td>Premises, Plant, and Equipment</td>
<td>8.00</td>
</tr>
<tr>
<td>Investments Under § 940.3(e) &amp; (f)</td>
<td>8.00</td>
</tr>
</tbody>
</table>

(ii) When determining the applicable credit risk percentage requirement from Tables 1.2 or 1.3 of this part, each Bank shall apply the following criteria:

(A) For assets or items that are rated directly by an NRSRO, the credit rating shall be the NRSRO’s credit rating for the asset or item as determined in accordance with paragraph (e)(2)(iii) of this section.

(B) When using Table 1.3 of this part, for an asset, off-balance sheet item, or derivative contract that is not rated directly by an NRSRO, but for which an NRSRO rating has been assigned to any corresponding obligor counterparty, third party guarantor, or collateral backing the asset, item, or derivative, the credit rating that shall apply to the asset, item, or derivative, or portion of the asset, item, or derivative so guaranteed or collateralized, shall be the credit rating corresponding to such obligor counterparty, third party guarantor, or underlying collateral, as determined in accordance with paragraph (e)(2)(iii) of this section. If there are multiple obligor counterparties, third party guarantors, or collateral instruments backing an asset, item, or derivative not rated directly by an NRSRO, or any specific portion thereof, then the credit rating that shall apply to that asset, item, or derivative or specific portion thereof, shall be the highest credit rating among such obligor counterparties, third party guarantors, or collateral instruments, as determined in accordance with paragraph (e)(2)(iii) of this section. Assets, items or derivatives shall be deemed to be backed by collateral for purposes of this paragraph if the collateral is:

(1) Actually held by the Bank or an independent, third-party custodian, or, if permitted under the Bank’s collateral agreement with such party, by the Bank’s member or an affiliate of that member where the term “affiliate” has the same meaning as in § 950.1 of this chapter;

(2) Legally available to absorb losses;

(3) Of a readily determinable value at which it can be liquidated by the Bank;

(4) Held in accordance with the provisions of the Bank’s member products policy established pursuant to § 917.4 of this chapter; and

(5) Subject to an appropriate discount to protect against price decline during the holding period, as well as the costs likely to be incurred in the liquidation of the collateral.

(C) When using Table 1.3 of this part, for an asset with a short-term credit rating from a given NRSRO, the credit risk percentage requirement shall be based on the remaining maturity of the asset and the long-term credit rating provided for the issuer of the asset by the same NRSRO. Should the issuer of the short-term asset not have a long-term credit rating, the long-term equivalent rating shall be determined as follows:

(1) The highest short-term credit rating shall be equivalent to the third highest long-term rating;

(2) The second highest short-term rating shall be equivalent to the fourth highest long-term rating;

(3) The third highest short-term rating shall be equivalent to the fourth highest long-term rating; and

(4) If the short-term rating is downgraded to below investment grade after acquisition by the Bank, the short-term rating shall be equivalent to the second highest below investment grade long-term rating.
(D) For residential mortgage assets and other assets or items, or relevant portion of an asset or item, that do not meet the requirements of paragraphs (e)(2)(ii)(A), (e)(2)(ii)(B) or (e)(2)(ii)(C) of this section, and are not identified in Tables 1.1 or Table 1.4 of this part, each Bank shall determine its own credit rating for such assets or items, or relevant portion thereof, using credit rating standards available from an NRSRO or other similar standards. This credit rating, as determined by the Bank, shall be used to identify the applicable credit risk percentage requirement under Table 1.2 of this part for residential mortgage assets, or under Table 1.3 of this part for all other assets or items.

(E) The credit risk percentage requirement for mortgage assets that are acquired member assets described in §955.2 of this chapter shall be assigned from Table 1.2 of this part based on the rating of those assets after taking into account any credit enhancement required by §955.3 of this chapter. Should a Bank further enhance a pool of loans through the purchase of insurance or by some other means, the credit risk percentage requirement shall be based on the rating of such pool after the supplemental credit enhancement, except that the Finance Board retains the right to adjust the credit capital charge to account for any deficiencies with the supplemental enhancement on a case-by-case basis.

(iii) In determining the credit ratings under paragraph (e)(2)(ii)(A), (e)(2)(ii)(B) and (e)(2)(ii)(C) of this section, each Bank shall apply the following criteria:

(A) The most recent credit rating from a given NRSRO shall be considered. If only one NRSRO has rated an asset or item, that NRSRO’s rating shall be used. If an asset or item has received credit ratings from more than one NRSRO, the lowest credit rating from among those NRSROs shall be used.

(B) Where a credit rating has a modifier (e.g., A–1 + for short-term ratings and A + or A– for long-term ratings) the credit rating is deemed to be the credit rating without the modifier (e.g., A–1 + = A–1 and A + or A– = A);

(f) Calculation of credit equivalent amount for off-balance sheet items—(1) General requirement. The credit equivalent amount for an off-balance sheet item shall be determined by a Finance Board approved model or shall be equal to the face amount of the instrument multiplied by the credit conversion factor assigned to such risk category of instruments, subject to the exceptions in paragraph (f)(2) of this section, provided in the following Table 2 of this part:

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Credit conversion factor (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset sales with recourse where the credit risk remains with the Bank</td>
<td>100</td>
</tr>
<tr>
<td>Commitments to make advances subject to certain drawdown.</td>
<td></td>
</tr>
<tr>
<td>Commitments to acquire loans subject to certain drawdown.</td>
<td></td>
</tr>
<tr>
<td>Standby letters of credit</td>
<td>50</td>
</tr>
<tr>
<td>Other commitments with original maturity of over one year.</td>
<td></td>
</tr>
<tr>
<td>Other commitments with original maturity of one year or less</td>
<td>20</td>
</tr>
</tbody>
</table>

(2) Exceptions. The credit conversion factor shall be zero for Other Commitments With Original Maturity of Over One Year and Other Commitments With Original Maturity of One Year or Less, for which credit conversion factors of 50 percent or 20 percent would otherwise apply, that are unconditionally cancelable, or that effectively provide for automatic cancellation, due to the deterioration in a borrower’s creditworthiness, at any time by the Bank without prior notice.

(g) Calculation of current and potential future credit exposures for single derivative contracts—(1) Current credit exposure. The current credit exposure for a derivative contract that is not subject to a qualifying bilateral netting contract described in paragraph (h)(3) of this section shall be:

(i) If the mark-to-market value of the contract is positive, the mark-to-market value of the contract; or

(ii) If the mark-to-market value of the contract is zero or negative, zero.

(2) Potential future credit exposure. (i)
for a single derivative contract, including a derivative contract with a negative mark-to-market value, shall be calculated using an internal model approved by the Finance Board or, in the alternative, by multiplying the effective notional amount of the derivative contract by one of the assigned credit conversion factors, modified as may be required by paragraph (g)(2)(ii) of this section, for the appropriate category as provided in the following Table 3 of this part:

**(Table 3—Credit Conversion Factors for Potential Future Credit Exposure Derivative Contracts (in percent))**

<table>
<thead>
<tr>
<th>Residual maturity</th>
<th>Interest rate</th>
<th>Foreign exchange and gold</th>
<th>Equity</th>
<th>Precious metals except gold</th>
<th>Other commodities</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year or less</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Over 1 year to five years</td>
<td>.5</td>
<td>5</td>
<td>8</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Over five years</td>
<td>1.5</td>
<td>7.5</td>
<td>10</td>
<td>8</td>
<td>15</td>
</tr>
</tbody>
</table>

(ii) In applying the credit conversion factors in Table 3 of this part the following modifications shall be made:

(A) For derivative contracts with multiple exchanges of principal, the conversion factors are multiplied by the number of remaining payments in the derivative contract; and

(B) For derivative contracts that automatically reset to zero value following a payment, the residual maturity equals the time until the next payment; however, interest rate contracts with remaining maturities of greater than one year shall be subject to a minimum conversion factor of 0.5 percent.

(iii) If a Bank uses an internal model to determine the potential future credit exposure for a particular type of derivative contract, the Bank shall use the same model for all other similar types of contracts. However, the Bank may use an internal model for one type of derivative contract and Table 3 of this part for another type of derivative contract.

(iv) Forwards, swaps, purchased options and similar derivative contracts not included in the Interest Rate, Foreign Exchange and Gold, Equity, or Precious Metals Except Gold categories shall be treated as other commodities contracts when determining potential future credit exposures using Table 3 of this part.

(v) If a Bank uses Table 3 of this part to determine the potential future credit exposures for credit derivative contracts, the credit conversion factors provided in Table 3 for equity contracts shall also apply to the credit derivative contracts entered into with investment grade counterparties. If the counterparty is downgraded to below investment grade, the credit conversion factor provided in Table 3 of this part for other commodity contracts shall apply.

(h) Calculation of current and potential future credit exposures for multiple derivative contracts subject to a qualifying bilateral netting contract—(1) Current credit exposure. The current credit exposure for multiple derivative contracts executed with a single counterparty and subject to a qualifying bilateral netting contract described in paragraph (h)(3) of this section shall be calculated on a net basis and shall equal:

(i) The net sum of all positive and negative mark-to-market values of the individual derivative contracts subject to a qualifying bilateral netting contract, if the net sum of the mark-to-market values is positive; or

(ii) Zero, if the net sum of the mark-to-market values is zero or negative.

(2) Potential future credit exposure. The potential future credit exposure for each individual derivative contract from among a group of derivative contracts that are executed with a single counterparty and subject to a qualifying bilateral netting contract described in paragraph (h)(3) of this section shall be calculated as follows:

\[ A_{\text{net}} = 0.4 \times A_{\text{gross}} + (0.6 \times \text{NGR} \times A_{\text{gross}}), \]

where:

[301x66]15
(i) $A_n$ is the potential future credit exposure for an individual derivative contract subject to the qualifying bilateral netting contract;

(ii) $A_{gross}$ is the gross potential future credit exposure, i.e., the potential future credit exposure for the individual derivative contract, calculated in accordance with paragraph (g)(2) of this section but without regard to the fact that the contract is subject to the qualifying bilateral netting contract;

(iii) NGR is the net to gross ratio, i.e., the ratio of the net current credit exposure of all the derivative contracts subject to the qualifying bilateral netting contract, calculated in accordance with paragraph (h)(1) of this section, to the gross current credit exposure; and

(iv) The gross current credit exposure is the sum of the positive current credit exposures of all the individual derivative contracts subject to the qualifying bilateral netting contract.

(3) Qualifying bilateral netting contract. A bilateral netting contract shall be considered a qualifying bilateral netting contract if the following conditions are met:

(i) The netting contract is in writing;

(ii) The netting contract is not subject to a walkaway clause;

(iii) The netting contract provides that the Bank would have a single legal claim or obligation either to receive or to pay only the net amount of the sum of the positive and negative mark-to-market values on the individual derivative contracts covered by the netting contract in the event that a counterparty, or a counterparty to whom the netting contract has been assigned, fails to perform due to default, insolvency, bankruptcy, or other similar circumstance;

(iv) The Bank obtains a written and reasoned legal opinion that represents, with a high degree of certainty, that in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, the relevant court and administrative authorities would find the Bank’s exposure to be the net amount under:

(A) The law of the jurisdiction by which the counterparty is chartered or the equivalent location in the case of non-corporate entities, and if a branch of the counterparty is involved, then also under the law of the jurisdiction in which the branch is located;

(B) The law of the jurisdiction that governs the individual derivative contracts covered by the netting contract; and

(C) The law of the jurisdiction that governs the netting contract;

(v) The Bank establishes and maintains procedures to monitor possible changes in relevant law and to ensure that the netting contract continues to satisfy the requirements of this section; and

(vi) The Bank maintains in its files documentation adequate to support the netting of a derivative contract.

(1) Credit risk capital charge for assets hedged with credit derivatives—(1) Credit derivatives with a remaining maturity of one year or more. The credit risk capital charge for an asset that is hedged with a credit derivative that has a remaining maturity of one year or more may be reduced only in accordance with paragraph (i)(3) or (i)(4) of this section and only if the credit derivative provides substantial protection against credit losses.

(2) Credit derivatives with a remaining maturity of less than one year. The credit risk capital charge for an asset that is hedged with a credit derivative that has a remaining maturity of less than one year may be reduced only in accordance with paragraph (i)(3) of this section and only if the remaining maturity on the credit derivative is identical to or exceeds the remaining maturity of the hedged asset and the credit derivative provides substantial protection against credit losses.

(3) Capital charge reduced to zero. The credit risk capital charge for an asset shall be zero if a credit derivative is used to hedge the credit risk on that asset in accordance with paragraph (i)(1) or (i)(2) of this section, provided that:

(i) The remaining maturity for the credit derivative used for the hedge is identical to or exceeds the remaining
maturity for the hedged asset, and either:
(A) The asset referenced in the credit derivative is identical to the hedged asset; or
(B) The asset referenced in the credit derivative is different from the hedged asset, but only if the asset referenced in the credit derivative and the hedged asset have been issued by the same obligor, the asset referenced in the credit derivative ranks pari passu to or more junior than the hedged asset and has the same maturity as the hedged asset, and cross-default clauses apply; and
(ii) The credit risk capital charge for the credit derivative contract calculated pursuant to paragraph (d) of this section is still applied.
(4) Capital charge reduction in certain other cases. The credit risk capital charge for an asset hedged with a credit derivative in accordance with paragraph (i)(1) of this section shall equal the sum of the credit risk capital charges for the hedged and unhedged portion of the asset provided that:
(i) The remaining maturity for the credit derivative is less than the remaining maturity for the hedged asset and either:
(A) The asset referenced in the credit derivative is identical to the hedged asset; or
(B) The asset referenced in the credit derivative is different from the hedged asset, but only if the asset referenced in the credit derivative and the hedged asset have been issued by the same obligor, the asset referenced in the credit derivative ranks pari passu to or more junior than the hedged asset and has the same maturity as the hedged asset, and cross-default clauses apply; and
(ii) The credit risk capital charge for the unhedged portion of the asset equals:
(A) The credit risk capital charge for the hedged asset, calculated as the book value of the hedged asset multiplied by the hedged asset’s credit risk percentage requirement assigned pursuant to paragraph (e)(2) of this section where the appropriate credit rating is that for the hedged asset but the appropriate maturity is deemed to be the remaining maturity of the credit derivative; and
(iii) The credit risk capital charge for the hedged portion of the asset is equal to the credit risk capital charge for the credit derivative, calculated in accordance with paragraph (d) of this section.
(5) Zero Credit risk capital charge for certain derivative contracts. The credit risk capital charge for the following derivative contracts shall be zero:
(1) A foreign exchange rate contract with an original maturity of 14 calendar days or less (gold contracts do not qualify for this exception); and
(2) A derivative contract that is traded on an organized exchange requiring the daily payment of any variations in the market value of the contract.
(k) Date of calculations. Unless otherwise directed by the Finance Board, each Bank shall perform all calculations required by this section using the assets, off-balance sheet items, and derivative contracts held by the Bank, and, if applicable, the values or credit ratings of such assets, items, or derivatives as of the close of business of the last business day of the month for which the credit risk capital charge is being calculated.

§ 932.5 Market risk capital requirement.
(a) General requirement. (1) Each Bank’s market risk capital requirement shall equal the sum of:
(i) The market value of the Bank’s portfolio at risk from movements in interest rates, foreign exchange rates, commodity prices, and equity prices that could occur during periods of market stress, where the market value of the Bank’s portfolio at risk is determined using an internal market risk model that fulfills the requirements of paragraph (b) of this section and that has been approved by the Finance Board; and

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(ii) The amount, if any, by which the Bank’s current market value of total capital is less than 85 percent of the Bank’s book value of total capital, where:

(A) The current market value of the total capital is calculated by the Bank using the internal market risk model approved by the Finance Board under paragraph (d) of this section; and

(B) The book value of total capital is the same as the amount of total capital reported by the Bank to the Finance Board under §932.7 of this part.

(2) A Bank may substitute an internal cash flow model to derive a market risk capital requirement in place of that calculated using an internal market risk model under paragraph (a)(1) of this section, provided that:

(i) The Bank obtains Finance Board approval of the internal cash flow model and of the assumptions to be applied to the model; and

(ii) The Bank demonstrates to the Finance Board that the internal cash flow model subjects the Bank’s assets and liabilities, off-balance sheet items and derivative contracts, including related options, to a comparable degree of stress for such factors as will be required for an internal market risk model.

(b) Measurement of market value at risk under a Bank’s internal market risk model. (1) Except as provided under paragraph (a)(2) of this section, each Bank shall use an internal market risk model that estimates the market value of the Bank’s assets and liabilities, off-balance sheet items, and derivative contracts, including any related options, and measures the market value of the Bank’s portfolio at risk of its assets and liabilities, off-balance sheet items, and derivative contracts, including related options, from all sources of the Bank’s market risks, except that the Bank’s model need only incorporate those risks that are material.

(2) The Bank’s internal market risk model may use any generally accepted measurement technique, such as variance-covariance models, historical simulations, or Monte Carlo simulations, for estimating the market value of the Bank’s portfolio at risk, provided that any measurement technique used must cover the Bank’s material risks.

(3) The measures of the market value of the Bank’s portfolio at risk shall include the risks arising from the nonlinear price characteristics of options and the sensitivity of the market value of options to changes in the volatility of the options’ underlying rates or prices.

(4) The Bank’s internal market risk model shall use interest rate and market price scenarios for estimating the market value of the Bank’s portfolio at risk, but at a minimum:

(i) The Bank’s internal market risk model shall provide an estimate of the market value of the Bank’s portfolio at risk such that the probability of a loss greater than that estimated shall be no more than one percent;

(ii) The Bank’s internal market risk model shall incorporate scenarios that reflect changes in interest rates, interest rate volatility, and shape of the yield curve, and changes in market prices, equivalent to those that have been observed over 120-business day periods of market stress. For interest rates, the relevant historical observations should be drawn from the period that starts at the end of the previous month and goes back to the beginning of 1978;

(iii) The total number of, and specific historical observations identified by the Bank as, stress scenarios shall be:

(A) Satisfactory to the Finance Board;

(B) Representative of the periods of the greatest potential market stress given the Bank’s portfolio, and

(C) Comprehensive given the modeling capabilities available to the Bank; and

(iv) The measure of the market value of the Bank’s portfolio at risk may incorporate empirical correlations among interest rates.

(5) For any consolidated obligations denominated in a currency other than U.S. Dollars or linked to equity or commodity prices, each Bank shall, in addition to fulfilling the criteria of paragraph (b)(4) of this section, calculate an estimate of the market value of its portfolio at risk due to the material foreign exchange, equity price or commodity price risk, such that, at a minimum:
§ 932.8 Minimum liquidity requirements.

In addition to meeting the deposit liquidity requirements contained in §965.3 of this chapter, each Bank shall hold contingency liquidity in an amount sufficient to enable the Bank to meet its liquidity needs, which

§ 932.6 Operations risk capital requirement.

(a) General requirement. Except as authorized under paragraph (b) of this section, each Bank’s operations risk capital requirement shall at all times equal 30 percent of the sum of the Bank’s credit risk capital requirement and market risk capital requirement.

(b) Alternative requirements. With the approval of the Finance Board, each Bank may have an operations risk capital requirement equal to less than 30 percent but no less than 10 percent of the sum of the Bank’s credit risk capital requirement and market risk capital requirement if:

(1) The Bank provides an alternative methodology for assessing and quantifying an operations risk capital requirement; or

(2) The Bank obtains insurance to cover operations risk from an insurer rated at least the second highest investment grade credit rating by an NRSRO.

§ 932.7 Reporting requirements.

Each Bank shall report to the Finance Board by the 15th business day of each month its risk-based capital requirement by component amounts, and its actual total capital amount and permanent capital amount, calculated as of the close of business of the last business day of the preceding month, or more frequently, as may be required by the Finance Board.

§ 932.8 Minimum liquidity requirements.

In addition to meeting the deposit liquidity requirements contained in §965.3 of this chapter, each Bank shall hold contingency liquidity in an amount sufficient to enable the Bank to meet its liquidity needs, which
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shall, at a minimum, cover five business days of inability to access the consolidated obligation debt markets. An asset that has been pledged under a repurchase agreement cannot be used to satisfy minimum liquidity requirements.

§ 932.9 Limits on unsecured extensions of credit to one counterparty or affiliated counterparties; reporting requirements for total extensions of credit to one counterparty or affiliated counterparties.

(a) Unsecured extensions of credit to a single counterparty. A Bank shall not extend unsecured credit to any single counterparty (other than a GSE) in an amount that would exceed the limits of this paragraph. A Bank shall not extend unsecured credit to a GSE in an amount that would exceed the limits set forth in paragraph (c) of this section. If a third-party provides an irrevocable, unconditional guarantee of repayment of a credit (or any part thereof), the third-party guarantor shall be considered the counterparty for purposes of calculating and applying the unsecured credit limits of this section with respect to the guaranteed portion of the transaction.

(1) Term limits. All unsecured extensions of credit by a Bank to a single counterparty that arise from the Bank’s on- and off-balance sheet and derivative transactions (but excluding the amount of sales of federal funds with a maturity of one day or less and sales of federal funds subject to a continuing contract) shall not exceed the product of the maximum capital exposure limit applicable to such counterparty, as determined in accordance with paragraph (a)(4) of this section and Table 4 of this part, multiplied by the lesser of:

(i) The Bank’s total capital; or

(ii) The counterparty’s Tier 1 capital, or if Tier 1 capital is not available, total capital (as defined by the counterparty’s principal regulator) or some similar comparable measure identified by the Bank.

(2) Overall limits including sales of overnight federal funds. All unsecured extensions of credit by a Bank to a single counterparty that arise from the Bank’s on- and off-balance sheet and derivative transactions, including the amounts of sales of federal funds with a maturity of one day or less and sales of federal funds subject to a continuing contract, shall not exceed twice the limit calculated pursuant to paragraph (a)(1) of this section.

(3) Limits for certain obligations issued by state, local or tribal governmental agencies. The term limit set forth in paragraph (a)(1) of this section when applied to the marketable direct obligations of state, local or tribal government unit or agencies that are acquired member assets identified in §955.2(a)(3) of this chapter or are otherwise excluded from the prohibition against investments in whole mortgages or whole loan or interests in such mortgages or loans by §956.3(a)(4)(iii) of this chapter shall be calculated based on the Bank’s total capital and the credit rating assigned to the particular obligation as determined in accordance with paragraph (a)(5) of this section. If a Bank owns series or classes of obligations issued by a particular state, local or tribal government unit or agency or has extended other forms of unsecured credit to such entity falling into different rating categories, the total amount of unsecured credit extended by the Bank to that government unit or agency shall not exceed the term limit associated with the highest-rated obligation issued by the entity and actually purchased by the Bank.

(4) Bank determination of applicable maximum capital exposure limits. (i) Except as set forth in paragraph (a)(4)(ii) or (a)(4)(iii) of this section, the applicable maximum capital exposure limits are assigned to each counterparty based upon the long-term credit rating of the counterparty, as determined in accordance with paragraph (a)(5) of this section, and are provided in the following Table 4 of this part:

<table>
<thead>
<tr>
<th>Long-term credit rating of counterparty category</th>
<th>Maximum capital exposure limit (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest Investment Grade</td>
<td>15</td>
</tr>
<tr>
<td>Second Highest Investment Grade</td>
<td>14</td>
</tr>
<tr>
<td>Third Highest Investment Grade</td>
<td>9</td>
</tr>
</tbody>
</table>

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Federal Housing Finance Board

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TABLE 4—MAXIMUM LIMITS ON UNSECURED EXTENSIONS OF CREDIT TO A SINGLE COUNTERPARTY BY COUNTERPARTY LONG-TERM CREDIT RATING CATEGORY—Continued

<table>
<thead>
<tr>
<th>Long-term credit rating of counterparty category</th>
<th>Maximum capital exposure limit (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourth Highest Investment Grade</td>
<td>3</td>
</tr>
<tr>
<td>Below Investment Grade or Other</td>
<td>1</td>
</tr>
</tbody>
</table>

(ii) If a counterparty does not have a long-term credit rating but has received a short-term credit rating from an NRSRO, the maximum capital exposure limit applicable to that counterparty shall be based upon the short-term credit rating, as determined in accordance with paragraph (a)(5) of this section, as follows:

(A) The highest short-term investment grade credit rating shall correspond to the maximum capital exposure limit provided in Table 4 of this part for the third highest long-term investment grade rating;

(B) The second highest short-term investment grade rating shall correspond to the maximum capital exposure limit provided in Table 4 of this part for the fourth highest long-term investment grade rating; and

(C) The third highest short-term investment grade rating shall correspond to the maximum capital exposure limit provided in Table 4 of this part for the fourth highest long-term investment grade rating.

(iii) If a specific debt obligation issued by a counterparty receives a credit rating from an NRSRO that is lower than the counterparty’s long-term credit rating, the total amount of the lower-rated obligation held by the Bank may not exceed a sub-limit calculated in accordance with paragraph (a)(1) of this section, except that the Bank shall use the credit rating associated with the specific obligation to determine the applicable maximum capital exposure limit. For purposes of this paragraph, the credit rating of the debt obligation shall be determined in accordance with paragraph (a)(5) of this section.

(5) Bank determination of applicable credit ratings. The following criteria shall be applied to determine a counterparty’s credit rating:

(i) The counterparty’s most recent credit rating from a given NRSRO shall be considered;

(ii) If only one NRSRO has rated the counterparty, that NRSRO’s rating shall be used. If a counterparty has received credit ratings from more than one NRSRO, the lowest credit rating from among those NRSROs shall be used;

(iii) Where a credit rating has a modifier, the credit rating is deemed to be the credit rating without the modifier;

(iv) If a counterparty is placed on a credit watch for a potential downgrade by an NRSRO, the credit rating from that NRSRO at the next lower grade shall be used; and

(v) If a counterparty is not rated by an NRSRO, the Bank shall determine the applicable credit rating by using credit rating standards available from an NRSRO or other similar standards.

(b) Unsecured extensions of credit to affiliated counterparties—(1) In general. The total amount of unsecured extensions of credit by a Bank to a group of affiliated counterparties that arise from the Bank’s on- and off-balance sheet and derivative transactions, including sales of federal funds with a maturity of one day or less and sales of federal funds subject to a continuing contract, shall not exceed thirty percent of the Bank’s total capital.

(2) Relation to individual limits. The aggregate limits calculated under this paragraph shall apply in addition to the limits on extensions of unsecured credit to a single counterparty imposed by paragraph (a) of this section.

(c) Special limits for GSEs—(1) In general. Unsecured extensions of credit by a Bank to a GSE that arise from the Bank’s on- and off-balance sheet and derivative transactions, including from the purchase of any subordinated debt subject to the sub-limit set forth in paragraph (c)(2) of this section, from any sales of federal funds with a maturity of one day or less and from sales of federal funds subject to a continuing contract, shall not exceed the lesser of:

(i) The Bank’s total capital; or

(ii) The GSE’s total capital (as defined by the GSE’s principal regulator) or some similar comparable measure identified by the Bank.
(2) Sub-limit for subordinated debt. The maximum amount of subordinated debt issued by a GSE and held by a Bank shall not exceed the term limit calculated under paragraph (a)(1) of this section, except that a Bank shall use the credit rating of the GSE’s subordinated debt to determine the applicable maximum capital exposure limit. The credit rating of the subordinated debt shall be determined in accordance with paragraph (a)(5) of this section.

(3) Limits applying to a GSE after a downgrade. If any NRSRO assigns a credit rating to any senior debt obligation issued (or to be issued) by a GSE that is below the highest investment grade or downgrades, or places on a credit watch for a potential downgrade of the credit rating on any senior unsecured obligation issued by a GSE to below the highest investment grade, the special limits on unsecured extensions of credit under paragraph (a) of this section shall cease to apply, and instead, the Bank shall calculate the maximum amount of its unsecured extensions of credit to that GSE in accordance with paragraphs (a)(1) and (a)(2) of this section.

(4) Extensions of unsecured credit to other Banks. The limits of this section do not apply to unsecured credit extended by one Bank to another Bank.

(d) Extensions of unsecured credit after downgrade or placement on credit watch. If an NRSRO downgrades the credit rating applicable to any counterparty or places any counterparty on a credit watch for a potential downgrade, a Bank need not unwind or liquidate any existing transaction or position with that counterparty that complied with the limits of this section at the time it was entered. In such a case, however, a Bank may extend any additional unsecured credit to such a counterparty only in compliance with the limitations that are calculated using the lower maximum exposure limits. For the purposes of this section, the renewal of an existing unsecured extension of credit, including any decision not to terminate any sales of federal funds subject to a continuing contract, shall be considered an additional extension of unsecured credit that can be undertaken only in accordance with the lower limit.

(e) Reporting requirements—(1) Total unsecured extensions of credit. Each Bank shall report monthly to the Finance Board the amount of the Bank’s total unsecured extensions of credit arising from on- and off-balance sheet and derivative transactions to any single counterparty or group of affiliated counterparties that exceeds 5 percent of:

(i) The Bank’s total capital; or
(ii) The counterparty’s, or affiliated counterparties’ combined, Tier 1 capital, or if Tier 1 capital is not available, total capital (as defined by each counterparty’s principal regulator) or some similar comparable measure identified by the Bank.

(2) Total secured and unsecured extensions of credit. Each Bank shall report monthly to the Finance Board the amount of the Bank’s total secured and unsecured extensions of credit arising from on- and off-balance sheet and derivative transactions to any single counterparty or group of affiliated counterparties that exceeds 5 percent of the Bank’s total assets.

(3) Extensions of credit in excess of limits. A Bank shall report promptly to the Finance Board any extensions of unsecured credit that exceeds any limit set forth in paragraphs (a), (b) or (c) of this section. In making this report, a Bank shall provide the name of the counterparty or group of affiliated counterparties to which the excess unsecured credit has been extended, the dollar amount of the applicable limit which has been exceeded, the dollar amount by which the Bank’s extension of unsecured credit exceeds such limit, the dates for which the Bank was not in compliance with the limit, and, if applicable, a brief explanation of any extenuating circumstances which caused the limit to be exceeded.

(f) Measurement of unsecured extensions of credit—(1) In general. For purposes of this section, unsecured extensions of credit will be measured as follows:

(i) For on-balance sheet transactions, an amount equal to the sum of the book value of the item plus net payments due the Bank;
(ii) For off-balance sheet transactions, an amount equal to the credit
equivalent amount of such item, calculated in accordance with §932.4(f) of this part; and

(iii) For derivative transactions, an amount equal to the sum of the current and potential future credit exposures for the derivative contract, where those values are calculated in accordance with §§932.4(g) or 932.4(h) of this part, as applicable, less the amount of any collateral that is held in accordance with the requirements of §932.4(e)(2)(ii)(B) of this part against the credit exposure from the derivative contract.

(2) Status of debt obligations purchased by the Bank. Any debt obligation or debt security (other than mortgage-backed securities or acquired member assets that are identified in §§955.2(a)(1) and (2) of this chapter) purchased by a Bank shall be considered an unsecured extension of credit for the purposes of this section, except:

(i) Any amount owed the Bank against which the Bank holds collateral in accordance with §932.4(e)(2)(ii)(B) of this part; or

(ii) Any amount which the Finance Board has determined on a case-by-case basis shall not be considered an unsecured extension of credit.

(g) Obligations of the United States. Obligations of, or guaranteed by, the United States are not subject to the requirements of this section.

[66728, Dec. 27, 2002]
§ 955.1 Definitions.

As used in this part:

Affiliate means any business entity that controls, is controlled by, or is under common control with, a member.

Expected losses means the base loss scenario in the methodology of an NRSRO applicable to that type of AMA asset.

Residential real property has the meaning set forth in § 950.1 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 housing associates by means of either a purchase or a funding transaction (AMA), 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 housing associate nexus requirement. The assets are:

(1) Either:

(i) Originated or issued by, through, or on behalf of a Bank System member or housing associate, or an affiliate thereof; or

(ii) Held for a valid business purpose by a Bank System member or housing associate, or an affiliate thereof, prior to acquisition by a Bank; and

(2) Acquired either:

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

(ii) From a member or housing associate of another Bank, pursuant to an arrangement with that Bank, which, in the case of state and local finance agency bonds only, may be reached in accordance with the following process:

(A) The housing finance agency shall first offer the Bank in whose district the agency is located (local Bank) a right of first refusal to purchase, or negotiate the terms of, its proposed bond offering;

(B) If the local Bank indicates, within a three day period, that it will negotiate in good faith to purchase the bonds, the agency may not offer to sell or negotiate the terms of a purchase with another Bank; and

(C) If the local Bank declines the offer, or has failed to respond within the three day period, the acquiring Bank will be considered to have an arrangement with the local Bank for purposes of this section and may offer to buy or negotiate the terms of a bond sale with the agency;

(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
Federal Housing Finance Board § 955.3

(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. At the earlier of 270 days from the date of the Bank’s acquisition of the first loan in a pool, or the date at which the amount of a pool’s assets reaches $100 million, a Bank shall determine the total credit enhancement necessary to enhance the asset or pool of assets to a credit quality that is equivalent to that of an instrument having at least the fourth highest credit rating from an NRSRO, or such higher credit rating as the Bank may require. The Bank shall make this determination for each AMA product using a methodology that is confirmed in writing by an NRSRO to be comparable to a methodology that the NRSRO would use in determining credit enhancement levels when conducting a rating review of the asset or pool of assets in a securitization transaction.

(b) Credit risk-sharing structure. A Bank acquiring AMA shall implement, and have in place at all times, a credit risk-sharing structure for each AMA product under which a member or housing associate of the Bank or, with the approval of both Banks, a member or housing associate of another Bank, provides a sufficient credit enhancement from the first dollar of credit loss for each asset or pool of assets such that the acquiring Bank’s exposure to credit risk for the life of the asset or pool of assets is no greater than that of an asset rated in the fourth highest credit rating category, as determined pursuant to paragraph (a) of this section, or such higher rating as the acquiring Bank may require. This credit enhancement structure shall meet the following requirements:

(1) A portion of the credit enhancement may be provided by:

(i) Contracting with an insurance affiliate of that member or housing associate to provide an enhancement or undertaking against losses to the Bank, but only where such insurance is positioned in the credit enhancement structure so as to cover only losses remaining after the member or housing associate has borne losses as required under paragraph (b)(2) of this section;

(ii) Purchasing loan-level insurance, which may include United States government insurance or guarantee, but only where:

(A) The member or housing associate is legally obligated at all times to maintain such insurance with an insurer rated not lower than the second highest credit rating category; and

(B) Such insurance is positioned in the credit enhancement structure so as to cover only losses remaining after the member or housing associate has borne losses as required under paragraph (b)(2) of this section;

(iii) Purchasing pool-level insurance, but only where such insurance:

(A) Insures that portion of the required credit enhancement attributable to the geographic concentration and size of the pool; and

(B) Is positioned last in the credit enhancement structure so as to cover only those losses remaining after all other elements of the credit enhancement structure have been exhausted; or

(iv) Contracting with another member or housing associate in the Bank’s district or in another Bank’s district, pursuant to an arrangement with that Bank, to provide an enhancement or undertaking against losses to the Bank in return for some compensation;

(2) The member or housing associate that is providing the credit enhancement required under paragraph (b)(1) of this section shall in all cases bear the direct economic consequences of actual credit losses on the asset or pool of assets:

(i) From the first dollar of loss up to the amount of expected losses; or

(ii) Immediately following expected losses, but in an amount equal to or exceeding the amount of expected losses;

(3) The portion of the credit enhancement that is an obligation of a Bank System member or housing associate shall be fully secured; and

(4) The Bank shall obtain written verification from an NRSRO that concludes to the satisfaction of the Finance Board, based on the underlying economic terms of the credit enhancement structure as represented by the
§ 955.4 Reporting requirement for acquired member assets.

Each Bank shall report information related to AMA in accordance with the instructions provided in the Data Reporting Manual issued by the Finance Board, as amended from time to time. [71 FR 35500, June 21, 2006]

§ 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 housing associate as part of any AMA-related agreements are signed with that member or housing 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.

(a) General. Each Bank shall hold retained earnings plus general allowance for losses as support for the credit risk of all AMA estimated by the Bank to represent a credit risk that is greater than that of comparable instruments that have received the second highest credit rating from an NRSRO in an amount equal to or greater than the outstanding balance of the assets or pools of assets times a factor associated with the putative credit rating of the assets or pools of assets as determined by the Finance Board on a case-by-case basis. For single-family mortgage assets, the factors are as set forth in Table 1 of this part.

<table>
<thead>
<tr>
<th>Putative rating of single-family mortgage assets</th>
<th>Percentage applicable to on-balance sheet equivalent value of AMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third Highest Investment Grade</td>
<td>0.90</td>
</tr>
<tr>
<td>Fourth Highest Investment Grade</td>
<td>1.50</td>
</tr>
<tr>
<td>If Downgraded to Below Investment Grade After Acquisition By Bank</td>
<td></td>
</tr>
<tr>
<td>Highest Below Investment Grade</td>
<td>2.25</td>
</tr>
<tr>
<td>Second Highest Below Investment Grade</td>
<td>2.60</td>
</tr>
<tr>
<td>All Other Below Investment Grade</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(b) Recalculation of credit enhancement. For risk-based capital purposes, each Bank shall recalculate the estimated credit rating of a pool of AMA if...
there is evidence that a decline in the credit quality of that pool may have occurred.

SUBCHAPTERS H–M [RESERVED]

PARTS 956–999 [RESERVED]