

**§615.5136**

**12 CFR Ch. VI (1-1-06 Edition)**

a minimum, the interest rate risk management section shall establish policies and procedures for the bank to:

(a) Identify and analyze the causes of risks within its existing balance sheet structure;

(b) Measure the potential impact of these risks on projected earnings and market values by conducting interest rate shock tests and simulations of multiple economic scenarios at least on a quarterly basis;

(c) Explore and implement actions needed to obtain its desired risk management objectives;

(d) Document the objectives that the bank is attempting to achieve by purchasing eligible investments that are authorized by §615.5140 of this subpart;

(e) Evaluate and document, at least quarterly, whether these investments have actually met the objectives stated under paragraph (d) of this section.

[58 FR 63056, Nov. 30, 1993, as amended at 63 FR 39225, July 22, 1998]

**§615.5136 Emergencies impeding normal access of Farm Credit banks to capital markets.**

An emergency shall be deemed to exist whenever a financial, economic,

agricultural or national defense crisis could impede the normal access of Farm Credit banks to the capital markets. Whenever the Farm Credit Administration determines after consultations with the Federal Farm Credit Banks Funding Corporation that such an emergency exists, the Farm Credit Administration Board shall, in its sole discretion, adopt a resolution that:

(a) Increases the amount of eligible investments that Farm Credit Banks, banks for cooperatives and agricultural credit banks are authorized to hold pursuant to §615.5132 of this subpart; and/or

(b) Modifies or waives the liquidity reserve requirement in §615.5134 of this subpart.

[58 FR 63057, Nov. 30, 1993]

**§615.5140 Eligible investments.**

(a) You may hold only the following types of investments listed in the Investment Eligibility Criteria Table. These investments must be denominated in United States dollars.

Investment Eligibility Criteria Table

| ASSET CLASS   | FINAL MATURITY LIMIT                          | NRSRO CREDIT RATING               | OTHER REQUIREMENTS  | INVESTMENT PORTFOLIO LIMIT |
|---|---|-----------------------------------|---|----------------------------|
| (1) Obligations of the United States <ul style="list-style-type: none"> <li>Treasuries</li> <li>Agency securities (except mortgage securities)</li> <li>Other obligations fully insured or guaranteed by the United States, its agencies, instrumentalities and corporations</li> </ul> | None  | NA                                | None  | None                       |
| (2) Municipal Securities  |   |                                   |   |                            |
| • General obligations   | 10 years                                      | One of the highest two            | None  | None                       |
| • Revenue bonds   | 5 years                                       | Highest                           | At the time of purchase, you must document that the issue is actively traded in an established secondary market | 15%                        |
| (3) International and Multilateral Development Bank Obligations   | None  | None                              | The United States must be a voting shareholder  | None                       |
| (4) Money Market Instruments  |   |                                   |   |                            |
| • Federal funds   | 1 day or continuously callable up to 100 days | One of the two highest short-term | None  | None                       |
| • Negotiable certificates of deposit  | 1 year  |                                   | None  | None                       |
| • Bankers acceptances   | None  |                                   | Issued by a depository institution  | None                       |
| • Commercial paper  | 270 days                                      |                                   |   | None                       |
| • Non-callable Term Federal funds and Eurodollar time deposits  | 100 days                                      | Highest short-term                | None  | 20%                        |
| • Master notes  | 270 days                                      |                                   |   | 20%                        |
| • Repurchase agreements collateralized by eligible investments or marketable securities rated in the highest credit rating category by an NRSRO   | 100 days                                      | NA                                | If counterparty defaults, you must divest non-eligible securities under § 615.5143                              | None                       |

| ASSET CLASS   | FINAL MATURITY LIMIT                            | NRSRO CREDIT RATING                               | OTHER REQUIREMENTS   | INVESTMENT PORTFOLIO LIMIT  |
|---|---|---|--|---|
| <b>(5) Mortgage Securities</b>  |   |   |  |   |
| <ul style="list-style-type: none"> <li>Issued or guaranteed by the United States</li> <li>Fannie Mae or Freddie Mac mortgage securities</li> <li>Non-Agency securities that comply 15 U.S.C. 77d(5) or 15 U.S.C. 78c(a)(41)</li> <li>Commercial mortgage-backed securities</li> </ul> | <p>None</p> <p>None</p> <p>None</p> <p>None</p> | <p>NA</p> <p>NA</p> <p>Highest</p> <p>Highest</p> | <p>Stress testing under § 615.5141</p> <p>Stress testing under § 615.5141</p> <p>Stress testing under § 615.5141</p> <ul style="list-style-type: none"> <li>Security must be backed by a minimum of 100 loans.</li> <li>Loans from a single mortgagor cannot exceed 5% of the pool</li> <li>Pool must be geographically diversified pursuant to the board's policy</li> <li>Stress testing under § 615.5141</li> </ul> | <p>None</p> <p>50%</p> <p>15%</p>   |
| <b>(6) Asset-Backed Securities</b> secured by:  | None  | Highest   | <p>5-year WAL for fixed rate or floating rate ABS at their contractual interest rate caps</p> <p>7-year WAL for floating rate ABS that remain below their contractual interest rate cap</p>  | 20%   |
| <ul style="list-style-type: none"> <li>Credit card receivables</li> <li>Automobile loans</li> <li>Home equity loans</li> <li>Wholesale automobile dealer loans</li> <li>Student loans</li> <li>Equipment loans</li> <li>Manufactured housing loans</li> </ul>                         |   |   |  |   |
| <b>(7) Corporate Debt Securities</b>  | 5 years   | One of the two highest                            | Cannot be convertible to equity securities   | 20%   |
| <b>(8) Diversified Investment Funds</b>   | NA  | NA  | <p>The portfolio of the investment company must consist solely of eligible investments authorized by §§ 615.5140 and 615.5174.</p> <p>The investment company's risk and return objectives and use of derivatives must be consistent with FCA guidance and your investment policies.</p>  | <p>None, if your shares in each investment company comprise 10% or less of your portfolio. Otherwise counts toward limit for each type of investment.</p> |
| Shares of an investment company registered under section 8 of the Investment Company Act of 1940  |   |   |  |   |

(b) *Rating of foreign countries.* When-ever the obligor or issuer of an eligible investment is located outside the United States, the host country must

maintain the highest sovereign rating for political and economic stability by an NRSRO.

(c) *Marketable securities.* All eligible investments, except money market instruments, must be marketable. An eligible investment is marketable if you can sell it quickly at a price that closely reflects its fair value in an active and universally recognized secondary market.

(d) *Obligor limits.* (1) You may not invest more than 20 percent of your total capital in eligible investments issued by any single institution, issuer, or obligor. This obligor limit does not apply to obligations, including mortgage securities, that are issued or guaranteed as to interest and principal by the United States, its agencies, instrumentalities, or corporations.

(2) *Obligor limits for your holdings in an investment company.* You must count securities that you hold through an investment company towards the obligor limit of this section unless the investment company's holdings of the security of any one issuer do not exceed five (5) percent of the investment company's total portfolio.

(e) *Other investments approved by the FCA.* You may purchase and hold other investments that we approve. Your request for our approval must explain the risk characteristics of the investment and your purpose and objectives for making the investment.

[64 FR 28896, May 28, 1999]

**§615.5141 Stress tests for mortgage securities.**

Mortgage securities are not eligible investments unless they pass a stress test. You must perform stress tests to determine how interest rate changes will affect the cashflow and price of each mortgage security that you purchase and hold, except for adjustable rate securities that reprice at intervals of 12 months or less and are tied to an index. You must also use stress tests to gauge how interest rate fluctuations on mortgage securities affect your institution's capital and earnings. You may conduct the stress tests as described in either paragraph (a) or (b) of this section.

(a) Mortgage securities must comply with the following three tests at the time of purchase and each following quarter:

(1) *Average Life Test.* The expected WAL of the instrument does not exceed 5 years.

(2) *Average Life Sensitivity Test.* The expected WAL does not extend for more than 2 years, assuming an immediate and sustained parallel shift in the yield curve of plus 300 basis points, nor shorten for more than 3 years, assuming an immediate and sustained parallel shift in the yield curve of minus 300 basis points.

(3) *Price Sensitivity Test.* The estimated change in price is not more than thirteen (13) percent due to an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

(4) *Exemption.* A floating rate mortgage security is subject only to the price sensitivity test in paragraph (a)(3) of this section if at the time of purchase and each quarter thereafter it bears a rate of interest that is below its contractual cap.

(b) You may use an alternative stress test to evaluate the price sensitivity of your mortgage securities. An alternative stress test must be able to measure the price sensitivity of mortgage instruments over different interest rate/yield curve scenarios. The methodology that you use to analyze mortgage securities must be appropriate for the complexity of the instrument's structure and cashflows. Prior to purchase and each quarter thereafter, you must use the stress test to determine that the risk in the mortgage security is within the risk limits of your board's investment policies. The stress test must enable you to determine at the time of purchase and each subsequent quarter that the mortgage security does not expose your capital or earnings to excessive risks.

(c) You must rely on verifiable information to support all your assumptions, including prepayment and interest rate volatility assumptions, when you apply the stress tests in either paragraph (a) or (b) of this section. You must document the basis for all assumptions that you use to evaluate the security and its underlying mortgages. You must also document all subsequent changes in your assumptions. If at any time after purchase, a mortgage