

(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

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security no longer complies with requirements in this section, you must divest it in accordance with § 615.5143.

[64 FR 28899, May 28, 1999]

§ 615.5142 Association investments.

An association may hold eligible investments listed in § 615.5140, with the approval of its funding bank, for the purposes of reducing interest rate risk and managing surplus short-term funds. Each bank must review annually the investment portfolio of every association that it funds.

[64 FR 28899, May 28, 1999]

§ 615.5143 Disposal of ineligible investments.

You must dispose of an ineligible investment within 6 months unless we approve, in writing, a plan that authorizes you to divest the instrument over a longer period of time. An acceptable divestiture plan must require you to dispose of the ineligible investment as quickly as possible without substantial financial loss. Until you actually dispose of the ineligible investment, the managers of your investment portfolio must report at least quarterly to your board of directors about the status and performance of the ineligible instrument, the reasons why it remains ineligible, and the managers' progress in disposing of the investment.

[64 FR 28899, May 28, 1999]

§ 615.5144 Banks for cooperatives and agricultural credit banks.

As may be authorized by the banks for cooperatives' or agricultural credit banks boards of directors ownership investment may be made in foreign business entities solely for the purpose of obtaining credit information and other services needed to facilitate transactions which may be financed under section 3.7(b) of the Farm Credit Act Amendments of 1980. Such an investment shall not exceed the level required to access credit and other services of the entity and shall not be made for earnings purposes. The business entity shall be deemed to be principally engaged in providing credit information to and performing such servicing functions for its members where such activities constitute a materially im-

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portant line of business to its members. Also, investments must be made by a bank for cooperatives or agricultural credit bank for its own account and not on behalf of its members. The bank for cooperatives or agricultural credit bank shall use only those services provided by the business entity as necessary to facilitate transactions authorized by section 3.7(b) of the Farm Credit Act Amendments of 1980.

[46 FR 55088, Nov. 6, 1981, as amended at 54 FR 1151, Jan. 12, 1989; 54 FR 50736, Dec. 11, 1989; 61 FR 67187, Dec. 20, 1996. Redesignated at 64 FR 28899, May 28, 1999]

Subpart F—Property, Transfers of Capital, and Other Investments

§ 615.5170 Real and personal property.

Real estate and personal property may be acquired, held, or disposed of by any Farm Credit institution for the necessary and normal operations of its business. The purchase, lease, or construction of office quarters shall be limited to facilities reasonably necessary to meet the foreseeable requirements of the institution. Property shall not be acquired if it involves, or appears to involve, a bank or association in the real estate or other unrelated business.

[50 FR 48554, Nov. 26, 1985. Redesignated at 58 FR 63056, Nov. 30, 1993, and amended at 60 FR 20011, Apr. 24, 1995]

§ 615.5171 Transfer of capital from banks to associations.

(a) *Definitions for this section*—(1) *Transfer of capital* means any payment or forbearance by a Farm Credit Bank or agricultural credit bank (collectively, bank) to an affiliated association, including but not limited to:

- (i) The purchase of nonvoting stock or participation certificates;
- (ii) The payment of cash;
- (iii) Debt forgiveness or reduction;
- (iv) Interest rate concessions or interest-free loans;
- (v) The transfer of loans at other than fair market value;
- (vi) The reduction or elimination of standard loan servicing or other fees; and