

RB 2 was rescinded 1/13/95 by Applications Restructuring Regulation.

Handbook: Thrift Activities
Subjects: Investment Securities; Equity Risk Investments;
Capital Adequacy

Sections: 220; 230; 320
RB 2

August 18, 1988

Guidelines for Approving the Purchase or Sale of FHLMC Preferred Stock

RESCINDED

Summary: This bulletin establishes the procedures to be followed by the Principal Supervisory Agent (PSA) for obtaining the concurrence of the Office of Regulatory Activities in the application of any insured institution to buy or sell preferred stock of the Federal Home Loan Mortgage Corporation (FHLMC) or to approve dividends or stock repurchase programs pursuant to Temporary Rule No. 88-583, dated July 20, 1988.

For Further Information Contact:
The FHLBank District in which you are located or the Policy Division of the Office of Regulatory Activities, Washington, DC.

Regulatory Bulletin 2

General Policy

It is the general policy of the Board to approve applications for the purchase or sale of FHLMC preferred stock by institutions that fail to meet their minimum regulatory capital requirements whenever:

(1) for sale transactions, the gains associated with the sale will be dedicated to meeting the institution's fully phased-in capital requirement and the use of the proceeds from the sale will not significantly increase the risk of the institution's portfolio, or

(2) for purchase transactions, the transaction will not result in a significant increase in the risk of the institution's portfolio.

Where it is clear that an application meets these tests as a result of representations in the application or conditions imposed by the PSA in approving the application, and the PSA recommends approval, such applications will be preapproved by the Office of Regulatory Activities.

In the case of institutions that are RAP insolvent, it is the general policy of the Board not to approve applications for either purchase or sale of FHLMC preferred stock.

Federal Home Loan Bank System

In the case of institutions that do not meet their fully phased-in capital requirement, it is the general policy of the Board to require the exclusion of gains from the sale of FHLMC preferred stock from net income for the purpose of calculating permissible dividends and to take such gains into account when considering whether to approve a stock repurchase or other action that may similarly reduce an institution's capital position.

I. Sales

The prior concurrence of the Office of Regulatory Activities is hereby given where:

- A. After giving effect to the after-tax gain on the sale, the institution will exceed its minimum requirement; or
- B. The insured institution agrees that:

1. The institution will not, without the prior written approval of the PSA, increase its liabilities during any calendar quarter in an amount greater than the amount of interest credited to deposit accounts during that quarter until the institution is in compliance with its minimum capital requirement;

2. The institution will not, without the prior written approval of the PSA, make any investment with the proceeds of the sale (a) that does not qualify as liquidity pursuant to 523.10 of the Bank System Regulations, (b) is not a loan that is secured by real estate that is a one to four

family dwelling, or (c) is not used to reduce the institution's liabilities; and

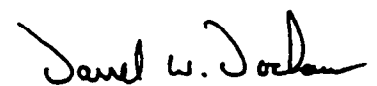
3. Before the institution pays any dividends on its own capital stock, the amount of any gain on the sale of FHLMC preferred stock will be deducted from the amount of any net profit for the purpose of calculating the permissible dividend for that period.

II. Purchases

The prior concurrence of the Office of Regulatory Activities is hereby given where, as part of its application, the institution has demonstrated to the satisfaction of the PSA that such purchase will not cause the institution to violate the loans-to-one-borrower limit for commercial loans.

Procedures

Requests for Office of Regulatory Activities concurrence and the PSA's recommendation should be submitted to the Managing Director for Supervision, and may be submitted by electronic mail or by facsimile. The Managing Director for Supervision or his designee are hereby given the authority to grant such concurrence on behalf of the Executive Director, Office of Regulatory Activities. Such concurrence may be transmitted by electronic mail or by facsimile.



— Darrel Dochow, Executive Director