



## ADVISORY BULLETIN 2005-AB-04

April 21, 2005

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***Federal Housing Finance Board  
Office of Supervision***

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**To:** Federal Home Loan Bank Presidents, Directors, General Counsels, Chief Financial Officers, and Directors of Internal Audit  
Managing Director of the Office of Finance

**From:** Stephen M. Cross  
Director, Office of Supervision

**Subject:** Reporting Issues Resulting from the Adoption of Statement of Financial Accounting Standards No. 150: *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (SFAS 150)

**Background:**

This Advisory Bulletin provides regulatory reporting and assessment calculation information to the Federal Home Loan Banks (Banks) resulting from the adoption of SFAS 150. Historically, Resolution Funding Corporation (REFCORP) and Affordable Housing Program (AHP) payment calculations have been based on net income calculated using generally accepted accounting principles (GAAP). SFAS 150 requires that under most circumstances mandatorily redeemable stock must be classified as a liability. SFAS 150 also requires classification of dividends on mandatorily redeemable stock as interest expense, which reduces GAAP net earnings.

**Guidance:**

Banks should add back the interest expense on mandatorily redeemable stock to GAAP net earnings in calculating AHP payments. Unless the REFCORP, acting under the supervision of the United States Department of the Treasury, informs the Banks that a different basis should be used, the Banks should continue to use GAAP net earnings, which includes as interest expense the dividends on mandatorily redeemable stock, to calculate the REFCORP payment.

Regulatory capital compliance will continue to be based on the definitions in section 6 of the Federal Home Loan Bank Act (Bank Act) (12 U.S.C. §1426). This will include adding back mandatorily redeemable stock classified as a liability to total, permanent, and other regulatory capital determinations. The Banks and the Office of Finance should determine the appropriate disclosures to be made in their respective annual and quarterly financial reports.

## CRS Reporting

The Finance Board is adding certain fields to the monthly Call Report System (CRS) reports to capture the dollar amount of mandatorily redeemable stock, interest expense, and regulatory capital compliance. These changes are reflected on a document titled *Adjustments to CRS line-item instructions for SFAS 150*, which was sent via email to Bank System representatives on February 23, 2005. As a result of these changes, certain schedules and reports on CRS have been adjusted to maintain the distinction between GAAP and regulatory capital. The Finance Board has made modifications to CRS to capture this distinction.

## AHP and REFCORP Contributions

The Bank Act provisions related to the AHP provide that beginning in 1995, each Bank must make an annual contribution equal to 10% of net earnings for the previous year after reduction for any payment required under 12 U.S.C. § 1441b (REFCORP)<sup>1</sup> and before declaring any dividend. Secondly, the aggregate contributions of the Banks must not be less than \$100 million for each year. Since the Bank Act requires that the AHP contribution be calculated prior to the declaration of dividends, net earnings for purposes of calculating the AHP contribution should not be reduced by any interest expense (dividends) associated with mandatorily redeemable stock.

Section 21B of the Bank Act (12 U.S.C. § 1441b) describes the establishment of the REFCORP and the mechanism for funding the interest payments due on obligations issued by the REFCORP. The Banks provide a share of the funding for the interest paid on REFCORP obligations through annual payments totaling 20% of net earnings after deducting expenses relating to section 10(j) of the Bank Act (12 U.S.C. § 1430(j)) (AHP) and operating expenses.

The basis for the REFCORP calculation remains unchanged and should be calculated as 20% of GAAP net earnings after reduction for any AHP contribution.<sup>2</sup>

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<sup>1</sup> Specifically, section 10(j)(8) of the Bank Act states that:

- The net earnings of any Federal Home Loan Bank shall be determined for purposes of this paragraph –
- (A) after reduction for any payment required under section 1441 or 1441b of this title; and
  - (B) before declaring any dividend under section 1436 of this title.

12 U.S.C. § 1430(j)(8). The Banks are not required to make any further payments under 12 U.S.C. § 1441.

<sup>2</sup> The calculation of AHP and REFCORP assessments are performed simultaneously. This calculation has been changed as the basis for each assessment will be slightly different.