FEDERAL HOUSING FINANCE BOARD

DIVIDEND POLICY FOR THE FEDERAL HOME LOAN BANK SYSTEM

No. 90-38

Date: March 15, 1990

WHEREAS, the Federal Housing Finance Board has the authority to approve dividends for the Federal Home Loan Banks and the responsibility to maintain the stability and soundness of the Federal Home Loan Bank System; and

WHEREAS, the maintenance of System financial stability and soundness must be coupled with the objective of maintaining and attracting member participation in the System: and

WHEREAS, the FHLBanks balance these goals as individual entities on a daily basis; and

WHEREAS, the role of the Federal Housing Finance Board is to oversee the safety and soundness of the system of FHLBanks, and if necessary, to impose limits on the dividends of the individual Banks to maintain the safety of the System; and

WHEREAS, although the following is an articulation of the Board's general policy in this area, the Board retains the right to review and approve individual Bank dividend recommendations on a case-by-case basis, particularly in the face of circumstances beyond the foresight or scope of this general policy.

NOW, THEREFORE, IT IS RESOLVED THAT:

1. All Banks with sufficient earnings, either current or retained, may pay a dividend so long as it will not result in a projected impairment of the par value of the capital stock of the Bank and is consistent with the other provisions of this policy.

2. After transfer of earnings to reserves (including those established by deficient Banks for the repurchase of Resolution Funding Corporation (REFCORP) stock), chargeoffs, and purchases of capital certificates of the Financing Corporation and payments required to the REFCORP, dividends may be paid out of the current calendar year net earnings and the dividend stabilization reserve ("DSR"). However, a Bank must retain in the DSR that portion of prepayment fee income which, if allocated on a pro rata basis over the maturity of prepaid advances, would be allocated to future dividend periods.

3. Subject to section 4 below, Banks with sufficient earnings, either current or retained, may pay dividends up to the average rate charged on federal funds during the preceding 3 months, plus 100 basis points.

4. Banks with sufficient earnings, either current or retained, but on whose behalf other Banks have made, or are projected to make during the next quarter, contributions to REFCORP ("a REFCORP deficient Bank") may pay dividends up to the average rate charged on federal funds during the preceding three months, plus 50 basis points, until all contributions made on behalf of the Bank are repaid. For purposes of this policy, deficiency is defined net of a Bank's contributions made on behalf of another Bank.

5. Banks with sufficient earnings, either current or retained, but on whose behalf other Banks have made contributions to the Financing Corporation (FICO), may pay a dividend up to 50 percent of the calendar year earnings, until the contributions made on the Bank's behalf have been repaid.

6. Dividends may be paid either quarterly, semiannually, or annually for the periods ending March 31, June 30, September 30, and December 31.

7. A Board of Directors may recommend that dividends be paid in either cash or capital stock.

8. Each Bank must submit to the Federal Housing Finance Board at least 10 days prior to the payment of dividends, the Bank's recommended dividend for the quarter and a certification that the recommendation is in compliance with FHFB policy.

9. For purposes of this policy, the average rate charged on federal funds during the preceding three months will be computed as the average of the weekly average overnight rate for the preceding twelve weeks.

By the Federal Housing Finance Board

Jack Kemp
Chairman