

No: 98-59

Date: December 2, 1998

FEDERAL HOUSING FINANCE BOARD

Authority to Issue Federal Home Loan Bank
Consolidated Obligations

Whereas, Section 11(c) of the Federal Home Loan Bank Act (Act) [12 U.S.C. 91431(c)] authorizes the Federal Housing Finance Board (Finance Board) to issue consolidated Federal Home Loan Bank (Bank) bonds (COs); and

Whereas, Finance Board regulations [12 C.F.R §910.1(a)] require the Finance Board to determine and authorize the issuance of all consolidated bonds, including terms and conditions, and other characteristics of such bonds, but permit the Finance Board to delegate this responsibility; and

Whereas, Section 2B(b)(1) of the Act [12 U.S.C. §1422b(b)(1)] authorizes the Finance Board to delegate ministerial functions, including issuing COs, to a joint office of the Federal Home Loan Bank System (System); and

Whereas, the Office of Finance (OF) under the management of its Board of Directors (OF Board) has been established by the Finance Board as a joint office of the System to act as the Fiscal Agent for the FHLBanks [12 U.S.C. §1422b(b)(2) and 12 C.F.R. §9900.30,910,941]; and

Whereas, the OF Board has submitted a request for authorization to issue COs for the calendar year 1999 as required by Finance Board Resolution No. 98-08, dated March 13, 1998;

NOW, THEREFORE, BE IT RESOLVED that:

1. The OF Board may continue, until no later than March 31, 2000, to approve the offering for current and forward settlement (up to 12 months), and, as necessary, the reopening of System COs, and approve the maturities, rates of interest, terms, and conditions thereof, subject to the provisions of 31 U.S.C. §9801 and the following conditions;

- a. COs may be offered for sale only to the extent that Banks are committed to take the proceeds.

b. COs may be offered for sale to the extent that their issuance would not cause the System's or a Bank's financial leverage to exceed the maximum allowed by regulation or policy.

c. COs offered for sale shall be restricted to debt with one or more of the following characteristics:

- debt with a fixed rate in either coupon or discount form;
- debt with a coupon rate that may vary based on the movement of one or more financial indices, including transactions which multiply the effects of rate changes;
- debt with a coupon rate that may change from fixed to floating, or vice versa, at the discretion of the Bank, according to a predetermined schedule, or based upon the movement of one or more financial indices;
- debt with a coupon that may vary based on the movement of one or more financial indices, where the movement of the interest rate is subject to caps and/or floors;
- debt with principal that may be called or redeemed by the Bank, in whole or in part;
- debt with principal that may be redeemed in whole or in part at the discretion of the investor;
- debt with principal that amortizes according to a predetermined schedule;
- debt with principal that is subject to redemption, in whole or in part, based upon the movement of one or more financial indices;
- debt with outstanding principal that may increase over time based on the movement of one or more indices; and
- debt denominated in any foreign currency that has exchange-rate risk relative to the U.S. dollar that can be effectively hedged.

d. For COs with interest payments or principal tied to one or more financial indices'

¹ A financial index shall be defined as an index that pertains to (1) interest rates, (2) baskets of equities, (3) currencies, or (4) aggregate measures of inflation, sanctioned by a national government, including those derived from aggregate measures of economic performance and prices. In the event of debt tied to a basket of equities, the basket should include a sufficient

- each index must be publicly available and verifiable independent of underwriters or selling group members;
- if an index or currency of denomination pertains to a foreign country, that country must be assigned a Country Risk Rating not lower than AA- by Thomson Bankwatch as of the CO trade date.² In the event a country is not rated by Thomson Bankwatch, Sovereign Risk Ratings from Moody's or Standard & Poor's may be used subject to the following: As of the CO trade date, a country must be assigned a Sovereign Risk Rating for long-term bonds or deposits from Moody's of not lower than Aa3; or a Sovereign Risk Rating for Foreign Currency from Standard & Poor's of not lower than AA-.

2. The OF shall ensure that:

- a. COs are offered for sale only to the extent that their issuance will not cause the System's or a Bank's financial leverage to exceed the maximum allowed by regulation or policy. Current regulation 12 C.F.R. §910.1 (b) limits System senior bonds (as defined in 12 C.F.R. §910.0 (d)) to 20 times total System capital. Current policy provides that a Bank may participate in COs issued by the OF, so long as entering into such transactions will not cause the Bank's total unsecured senior liabilities, as defined in Section 910.0 of the Finance Board's regulations (but excluding InterBank loans), to exceed 20 times the Bank's total capital. If a Bank's financial leverage exceeds the maximum allowed by regulation or policy, that Bank may participate in COs only to the extent necessary to refund maturing or called COs;
- b. The OF shall establish procedures with the Banks that require each Bank to provide daily reports to OF whenever that Bank's leverage exceeds 19 times its total capital;
- c. The 12:1 leverage covenant with prior bondholders is maintained according to the provisions of Finance Board Resolution No. 92-751, dated December 21, 1992; and
- d. For these purposes, capital stock, retained earnings, COs deposits, and other unsecured senior liabilities shall be determined based upon the most current financial information available to the OF as of the CO trade date.

3. The OF Board shall ensure that all System COs issued under this delegation are in full compliance with the terms and conditions set forth herein.

number of equities to ensure that the performance of just one equity in the basket does not dictate the movement of the index.

² The European Currency Unit (ECU) and the euro shall be deemed eligible indices and currencies of denomination.

4. The OF Board shall take no action to encourage competition with insured deposit programs of members of the ~~FHL Banks~~.

5. The OF Board shall submit to the Finance Board a formal request for authorization to issue COs for the April 1, 2000 to December 31, 2000 period no later than January 31, 2000.

6. The Finance Board, in its sole discretion, may, at any time, revise, or revoke the above authorization.

**By the Board of Directors of the
Federal Housing Finance Board**

A handwritten signature in black ink, appearing to read "Bruce A. Morrison". The signature is written in a cursive style with a large initial "B".

Bruce A. Morrison, Chair