

INTERAGENCY GUIDANCE ON CALIFORNIA REGISTERED WARRANTS

JULY 8, 2009

This interagency statement offers guidance for financial institutions regarding California registered warrants (warrants). Beginning July 2, 2009, and until a budget is passed, the State of California (State) intends to issue warrants for most general fund payments. The State is issuing these warrants, for example, as payment to individuals for income tax refunds, local governments for social services, and private contractors and state vendors for goods and services provided to the State. State chartered financial institutions should ensure their holdings of warrants are consistent with applicable state laws and regulations.

The State Attorney General has opined that these warrants are valid and binding obligations of the State. Because they share the same expected source of repayment, the warrants generally have the same credit quality characteristics as the State's other general obligations. For risk-based capital purposes, general obligation claims on a state receive a 20 percent risk weight.¹ Therefore, these warrants would also receive the same risk weighting.

As with any obligation issued by a jurisdiction, financial institutions should exercise prudent judgment and sound risk management practices with respect to the warrants. Financial institutions are individually responsible for understanding, managing, and controlling the risks and obligations arising from accepting and holding these warrants. Risk-management practices should include evaluating the credit quality of the warrants, establishing appropriate concentration limits, and ensuring appropriate liquidity risk management. Supervisors will evaluate financial institutions' risk management practices as part of the normal supervisory process.

¹Federally Insured Credit Unions are subject to NCUA Rules and Regulations Section 702.103 titled Applicability of risk-based net worth requirements.