



July 12, 2000

Subject: Office of Finance Assessment Formula (2000-APP-07)

Request Summary:

The Office of Finance (OF) has requested permission to continue using the same formula it has used for a number of years to assess the Federal Home Loan Banks (FHLBanks) for its operations. That formula bases the assessment in equal portions on FHLBank capital, consolidated obligations (COs) issued on behalf of a particular FHLBank, and COs outstanding for which a particular FHLBank is the primary obligor.

Background:

On June 2, 2000, the Finance Board adopted a final rule governing the authority of the FHLBanks to issue COs (*see* 65 Fed. Reg. 36290 (June 7, 2000)). Included in the final rule, which will become effective on July 1, 2000, are provisions governing OF operations. One of the provisions establishes the formula that the OF will use to assess the FHLBanks for the costs of its operations. In particular, 12 C.F.R. § 985.5(b)(2) states, "Each Bank's respective *pro rata* share of the reimbursement described in paragraph (b)(1) of this section shall be based on the ratio of the total paid-in value of its capital stock relative to the total paid-in value of all capital stock in the Bank System."

The new rules governing the OF also provide the option for an alternative assessment formula. Section 985.5(c) allows the OF, with the prior approval of the Finance Board, to implement an alternative formula for determining each FHLBank's respective share of OF expenses.

In 1992, the OF adopted its current reimbursement formula. This is based one-third on an FHLBank's *pro rata* share of total paid-in capital, one-third on an FHLBank's *pro rata* share of COs issued, and one-third on an FHLBank's *pro rata* share of COs outstanding for which that FHLBank is the primary obligor. Thus, the long-standing reimbursement formula conflicts with the primary formula specified in the new rule.

Analysis or Discussion:

In adopting the reimbursement formula, it was not the intent of the Finance Board to replace the existing reimbursement formula that apparently has served the FHLBank System well for eight years. In drafting the rule, Finance Board staff had been operating under the incorrect belief that the basis of the assessment formula was only paid-in capital. However, the final rule expressly allows the Finance Board to approve the use of an alternative formula. The formula requested by the OF is reasonable.

Approval:

The OF may use either the reimbursement formula specified in 12 C.F.R. § 985.5(b)(2) or an assessment formula based one-third on an FHLBank's *pro rata* share of paid-in capital, one-third on COs issued, and one-third on COs outstanding.

An Approval applies only to the particular transaction or activity proposed by the requestor, may be relied upon only by the requestor, and is subject to modification or rescission by action of the Board of Directors of the Finance Board. 64 Fed. Reg. 30880 (June 9, 1999) (*to be codified at 12 CFR pt. 903*).