



## REGULATORY INTERPRETATION 1999-RI-11

**Date:** May 5, 1999

**Subject:** Subsidy Calculations for Affordable Housing Program Subsidized Advances

**Request Summary:**

A Federal Home Loan Bank (FHLBank) has requested that the Federal Housing Finance Board (Finance Board) confirm the FHLBank's understanding of the effect of changes in interest rates on the net present value of the Affordable Housing Program (AHP) subsidy in AHP subsidized advances.

**Analysis/Interpretation:**

Finance Board staff concurs with the FHLBank's understanding of the effects of interest rate changes on subsidized advances as set forth below:

If the FHLBank makes a fixed rate commitment for an AHP subsidized advance (e.g., a commitment to make an advance at 5 percent), and the FHLBank does not take steps at any time before disbursement to manage the funding to support the advance (by hedging or otherwise), then any resulting change in the subsidy amount due to changes in the net present value of the subsidy resulting from changes in the interest rate at disbursement: (1) is not deemed to be a project modification, and (2) does not require approval by the FHLBank board of directors, even if the net present value at disbursement is greater than the net present value on the date of commitment (i.e., AHP application approval date).

Section 960.1 of the AHP regulation (12 C.F.R. § 960.1) contains the following provision regarding the meaning of the term subsidy in a subsidized advance:

*Subsidy* means: The net present value of the interest revenue foregone from making a subsidized advance at a rate below the Bank's cost of funds, determined as of the earlier of the date of disbursement of the subsidized advance or the date prior to disbursement on which the Bank first manages the funding to support the subsidized advance through its asset/liability management system, or otherwise.

As a practical matter, the net present value of the subsidy remains a variable number until the FHLBank's cost of funds is set, either at disbursement or as of the date the FHLBank first manages the funding to support the subsidized advance. Therefore, for a subsidized advance, up

until the point when the FHLBank's cost of funds is set, the FHLBank is not required to process a change in the net present value of the subsidy as a project modification. Further, the FHLBank board of directors is not required to approve any change in the subsidy amount before the FHLBank's cost of funds is set, even if the net present value of the subsidy increases between the time of application approval and the date the cost of funds is established for that advance.

If you have any question regarding this guidance, please contact Richard Tucker at (202) 408-2848.

This is a Finance Board regulatory interpretation within the meaning of the Procedures for Requests and Applications adopted by the Board of Directors of the Finance Board pursuant to Resolution Number 98-51, dated October 28, 1998. The regulatory guidance set forth herein may be relied upon subject to modification or rescission by action of the Board of Directors of the Finance Board.