

**BILLING CODE: 8070-01-P**

**FEDERAL HOUSING FINANCE AGENCY**

**12 CFR Part 1277**

**RIN 2590-AB41**

**Unsecured Credit Limits for Federal Home Loan Banks**

**AGENCY:** Federal Housing Finance Agency

**ACTION:** Notice of proposed rulemaking.

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**SUMMARY:** The Federal Housing Finance Agency (FHFA or the Agency) proposes to amend its regulation on Federal Home Loan Bank (Bank) capital requirements to modify limits on Bank extensions of unsecured credit in their on- and off-balance sheet and derivative transactions. Currently, overnight federal funds are excluded from the more restrictive “general limit” on unsecured credit to a single counterparty and are limited only by the higher “overall limit.” The proposed rule would add interest bearing deposit accounts (IBDAs) and other authorized overnight investments to that exclusion, which may provide greater flexibility and improved cost to yield than overnight federal funds.

**DATES:** Written comments must be received on or before **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]**.

**ADDRESSES:** You may submit your comments on the proposed rule, identified by regulatory information number (RIN) 2590-AB41, by any one of the following methods:

- *Agency website:* <https://www.fhfa.gov/regulation/federal-register?comments=open>.
- *Federal eRulemaking Portal:* <https://www.regulations.gov>. Follow the instructions for submitting comments. If you submit your comment to the Federal eRulemaking Portal, please also send it by email to FHFA at [RegComments@fhfa.gov](mailto:RegComments@fhfa.gov) to ensure timely receipt by FHFA. Include the following information in the subject line of your submission: Comments/RIN 2590-AB41.
- *Hand Delivered/Courier:* The hand delivery address is: Clinton Jones, General Counsel, Attention: Comments/RIN 2590-AB41, Federal Housing Finance Agency, 400 Seventh Street SW, Washington, DC 20219. Deliver the package at the Seventh Street entrance Guard Desk, First Floor, on business days between 9 a.m. and 5 p.m.
- *U.S. Mail, United Parcel Service, Federal Express, or Other Mail Service:* The mailing address for comments is: Clinton Jones, General Counsel, Attention: Comments/RIN 2590-AB41, Federal Housing Finance Agency, 400 Seventh Street SW, Washington, DC 20219. Please note that all mail sent to FHFA via U.S. Mail is routed through a national irradiation facility, a process that may delay delivery by approximately two weeks. For any time-sensitive correspondence, please plan accordingly.

**FOR FURTHER INFORMATION CONTACT:** Jack Phelps, Associate Director, Division of Bank Regulation, [Jack.Phelps@FHFA.gov](mailto:Jack.Phelps@FHFA.gov), 202-688-6348; Julie Paller, Principal Financial Analyst, Division of Bank Regulation, [Julie.Paller@FHFA.gov](mailto:Julie.Paller@FHFA.gov), 202-

649-3201; or Winston Sale, Assistant General Counsel, Office of General Counsel, [Winston.Sale@fhfa.gov](mailto:Winston.Sale@fhfa.gov), 202-649-3081. These are not toll-free numbers. For TTY/TRS users with hearing and speech disabilities, dial 711 and ask to be connected to any of the contact numbers above.

## **SUPPLEMENTARY INFORMATION:**

### **I. Comments**

FHFA invites comments on all aspects of the notice of proposed rulemaking and will take all comments into consideration before issuing a final rule. Comments will be posted to the electronic rulemaking docket on the FHFA public website at <http://www.fhfa.gov>, except as described below. Commenters should submit only information that the commenter wishes to make available publicly. FHFA may post only a single representative example of identical or substantially identical comments, and in such cases will generally identify the number of identical or substantially identical comments represented by the posted example. FHFA may, in its discretion, redact or refrain from posting all or any portion of any comment that contains content that is obscene, vulgar, profane, or threatens harm. All comments, including those that are redacted or not posted, will be retained in their original form in FHFA's internal rulemaking file and considered as required by all applicable laws. Commenters that would like FHFA to consider any portion of their comment exempt from disclosure on the basis that it contains trade secrets, or financial, confidential or proprietary data or information, should follow the procedures in section IV.D. of FHFA's Policy on Communications with Outside Parties in Connection with FHFA Rulemakings, see <https://www.fhfa.gov/sites/default/files/documents/Ex-Parte-Communications-Public->

[Policy\\_3-5-19.pdf](#). FHFA cannot guarantee that such data or information, or the identity of the commenter, will remain confidential if disclosure is sought pursuant to an applicable statute or regulation. *See* 12 CFR 1202.8, 12 CFR 1214.2. and <https://www.fhfa.gov/about/foia-reference-guide> for additional information.

## **II. Background**

### *A. The Federal Home Loan Banks and Limits on Unsecured Extensions of Credit*

The eleven Banks are wholesale financial institutions organized under the Federal Home Loan Bank Act (Bank Act).<sup>1</sup> Each Bank is a cooperative managed by its own board of directors.<sup>2</sup> Only members of a Bank may purchase the capital stock of a Bank and only members or certain eligible non-member housing associates (such as state housing finance agencies) may obtain access to secured loans, known as advances, or other products provided by a Bank.<sup>3</sup>

The Banks are subject to FHFA’s Bank capital regulation, located at 12 CFR part 1277, which sets requirements regarding Bank minimum capital, Bank capital stock, and Bank capital plans. Subpart B of the regulation, which governs Bank capital requirements, includes at 12 CFR 1277.7 provisions establishing limits on extensions of unsecured credit in which the Banks engage when managing their liquidity portfolios. Existing § 1277.7(a) establishes for the Banks two limits on unsecured extensions of credit to a single counterparty, referred to in the regulation as the “general limit”<sup>4</sup> and the “overall limit.”<sup>5</sup> The functional difference between the two limits is that the more

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<sup>1</sup> *See* 12 U.S.C. 1423 and 1432(a). The eleven Banks are located in: Boston, New York, Pittsburgh, Atlanta, Cincinnati, Indianapolis, Chicago, Des Moines, Dallas, Topeka, and San Francisco.

<sup>2</sup> *See* 12 U.S.C. 1427.

<sup>3</sup> *See* 12 U.S.C. 1426(a)(4) and (c)(5), 1430(a), and 1430b.

<sup>4</sup> *See* 12 CFR 1277.7(a)(1).

<sup>5</sup> *See* 12 CFR 1277.7(a)(2).

restrictive general limit excludes sales of federal funds with a maturity of one day or less and the sales of federal funds subject to a continuing contract<sup>6</sup> (collectively, overnight Fed Funds) from its measurement of extensions of unsecured credit, while the higher overall limit includes overnight Fed Funds.

The general limit is calculated by multiplying a maximum capital exposure limit (expressed as a percentage) associated with the applicable FHFA Credit Rating category of the counterparty by the lesser of either the Bank's total capital, or the counterparty's Tier 1 capital or total capital (in either case as defined by the counterparty's principal regulator).<sup>7</sup> In cases where the counterparty does not have a regulatory Tier 1 capital or total capital measure, the Bank would determine a similar capital measure to use.<sup>8</sup> The overall limit is set at not more than twice the general limit, which effectively establishes overnight Fed Funds as a special category of unsecured extensions of credit subject to a substantially higher limit than all other unsecured extensions of credit.

The Federal Housing Finance Board (Finance Board), FHFA's predecessor as regulator of the Banks, established the general and overall limits in a 2001 final rule addressing the Banks' extensions of unsecured credit.<sup>9</sup> The intent of the limits was to prevent undue concentration of credit in a single counterparty or group of affiliated counterparties. In the final rule, the Finance Board stated that it had considered excluding overnight Fed Funds transactions from the unsecured credit limits because other banking

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<sup>6</sup> "The fed funds market is an unsecured, mostly overnight, over-the counter funding market among banks and government-sponsored enterprises." *See* Board of Governors of the Federal Reserve System FEDS Notes (July 11, 2024). By regulation FHFA has defined "sales of federal funds subject to a continuing contract" as "an overnight federal funds loan that is automatically renewed each day unless terminated by either the lender or the borrower." 12 CFR 1277.1.

<sup>7</sup> *See* 12 CFR 1277.7(a)(1).

<sup>8</sup> *See* 12 CFR 1277.7(a)(1)(ii).

<sup>9</sup> *See* 66 FR 66718 (Dec. 27, 2001).

regulators excluded these transactions from their lending limits. However, it ultimately concluded that, given the Banks' financial incentives to lend into the federal funds markets (*i.e.*, the government-sponsored enterprise (GSE) funding advantage and fewer permissible investments than are available to commercial banks), permitting such lending without limits would be imprudent.<sup>10</sup> FHFA retained that approach when adopting the Finance Board's capital regulations along with certain amendments in 2019.<sup>11</sup> The special limit for overnight Fed Funds has not been substantively revised since 2001, while the Banks and the financial products in which they may invest have evolved considerably.

#### *B. Developments in Overnight Lending*

One of the primary functions of the Banks is to provide advances to their members. Thus, each Bank must have a large store of liquidity to meet its own needs and demands for advances from its members, even during periods of financial market disruption. Each Bank holds asset-side liquidity, or liquidity assets, on its balance sheet to supplement its liability-side liquidity, sourced from debt issued in the capital markets. These liquidity holdings include money market instruments, certain U.S. Treasury securities, and unencumbered cash. FHFA has provided guidance to the Banks on maintaining sufficient amounts of asset-side liquidity to continue regular business during capital market disruptions in FHFA Advisory Bulletin (AB) 2018-07.<sup>12</sup> This guidance states an expectation that asset-side liquidity holdings be readily convertible to cash with little or no loss in their par value.

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<sup>10</sup> 66 FR at 66720-21.

<sup>11</sup> See 84 FR 5308 (Feb. 20, 2019).

<sup>12</sup> Available at: <https://www.fhfa.gov/sites/default/files/2023-06/AB-2018-07-FHLB-Liquidity-Guidance.pdf>.

Money market instruments, including overnight Fed Funds, reverse repurchase agreements (reverse repos),<sup>13</sup> and IBDA deposits, typically comprise the largest segment of Bank liquidity holdings to optimize adherence to the guidance set forth in AB 2018-07. These overnight money market instruments have no price risk (they are par instruments that do not fluctuate in value due to interest rate changes), but they do have small, varying amounts of credit and operational risk.

Historically, Bank money market holdings consisted of overnight Fed Funds and reverse repos. Starting in 2014, new liquidity risk management requirements imposed by members' prudential regulators made it advantageous for certain insured depositories to offer IBDAs to the Banks. IBDA deposits are non-maturity deposits (that is, deposits that the depositor is free to withdraw at any time since there is no defined contractual maturity date) that a Bank may access whenever Fedwire fund transfer capabilities are open.<sup>14</sup> In contrast, overnight Fed Funds and reverse repos are returned to a Bank from the counterparty the next trading or banking day and often require a trade commitment early in the day. Among eligible money market instrument alternatives, IBDAs provide the most intraday liquidity flexibility for a Bank, as protocols can be established for the counterparty to return IBDA deposits to the Bank early each business day and a Bank can wait until the close of business to commit to redepositing the funds. This provides the Bank flexibility to meet unexpected, late-day member advance demand. For these reasons, IBDAs have become a preferred money market instrument to manage Bank liquidity.

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<sup>13</sup> Reverse repos are overnight or term lending to other financial institutions secured by securities collateral.

<sup>14</sup> The Federal Reserve System facilitates financial institutions' exchange of funds between various accounts, including from a Bank's IBDA account to its account at its local Federal Reserve Bank. These services are generally available each business day.

Under the existing Bank capital regulation, IBDA deposits are subject to the general limit on unsecured extensions of credit to a single counterparty, in addition to the larger overall limit that includes overnight Fed Funds. This restricts the amount of liquidity the Banks can manage using IBDAs. From a risk-management perspective, IBDAs are a well-established money market instrument among the Banks and have a similar risk profile to overnight Fed Funds. IBDAs and overnight Fed Funds are both overnight unsecured investments returned daily and the amount of exposure a Bank can have to any one counterparty in either investment type depends on the same Bank-developed internal credit rating methodology for unsecured counterparties. For these reasons and considering the importance of IBDAs to Bank liquidity management, subjecting IBDA deposits to the general limit rather than restricting them only through the higher overall limit does not provide offsetting safety and soundness benefits. Revising the regulation to exclude IBDA deposits from the more restrictive general limit would provide the Banks with greater flexibility in managing liquidity.

The Federal Home Loan Bank System (Bank System) IBDA deposits have slowly increased over time relative to total liquidity holdings, averaging 7.6 percent since January 2019 and peaking at 13.6 percent in October 2023. Overnight Fed Funds holdings averaged 43.7 percent over that same time. Despite growth in the Banks' use of IBDAs, the overnight Fed Funds daily average across the Bank System for the first six months of 2024 (\$91 billion) remains over three times the volume of IBDA deposits (\$27 billion). Under the current general limit, the maximum permissible IBDA deposit to any one counterparty is only half of the limit applicable to overnight Fed Funds exposure.



In November 2023, FHFA released its FHLBank System at 100: Focusing on the Future report (System at 100 Report), culminating FHFA’s comprehensive review of the Bank System.<sup>15</sup> In the report, FHFA identified the Banks’ ability to meet short-term liquidity needs as an area that would benefit from modernization.<sup>16</sup> This proposed rule is part of FHFA’s efforts toward this end.

### **III. The Proposed Rule**

#### ***A. Expanding Investments Restricted Only by the Higher Overall Limit—§§ 1277.1 and 1277.7(a)(1)***

FHFA is proposing to revise part 1277 of its regulations to exclude from the general limit on extensions of unsecured credit to a single counterparty set forth in § 1277.7(a)(1) investments with a maturity of one day or less where the principal is returned to the Bank each day. These would include overnight Fed Funds and deposits in banks or trust companies (such as IBDAs) as defined in § 1267.1, but would exclude demand accounts in Federal Reserve Banks, as well as other similar investments that may be approved by FHFA in accordance with § 1211.3 of its procedures regulation. As discussed further below, the proposed rule would add to § 1277.1 a new defined term, “authorized overnight investments,” to describe these investment options.

These changes would have the effect of expanding the types of permissible investments that are subject only to the overall limit on unsecured credit extensions set forth in § 1277.7(a)(2), a status that currently applies only to overnight Fed Funds. Overnight Fed Funds are overnight unsecured investments in approved counterparties,

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<sup>15</sup> The System at 100 Report is available at: <https://www.fhfa.gov/sites/default/files/2024-01/FHLBank-System-at-100-Report.pdf>.

<sup>16</sup> System at 100 Report at 32-33.

while IBDA deposits are non-maturity deposits in approved counterparties, using the same credit standards as, and generally paying a premium compared to, overnight Fed Funds. For a Bank's IBDA deposit to be considered an authorized overnight investment under the proposed rule, the Bank would be required to establish a process by which the counterparty would return its IBDA deposit daily, which is analogous to movement of overnight Fed Funds trades.

While IBDA deposits have a similar risk profile to overnight Fed Funds, FHFA expects that expanding IBDA deposit capacity would benefit the Banks by increasing the flexibility of their liquidity asset management. For example, while most reverse repo and overnight Fed Funds transactions require an early morning trade commitment, IBDA deposits can move between a Bank and counterparty whenever funds transfer systems are open, including the end of the business day. By employing IBDA deposits to manage liquidity, a Bank need not attempt to accurately anticipate member advance demand before gaining a full understanding of member liquidity needs and debt issuance conditions throughout the business day. In a stressed market environment, developments during the business day can create sudden, unanticipated late-day advance demand. The proposed exclusion of "authorized overnight investments" from the general limit would allow the Banks to increase IBDA deposit exposure and therefore retain more cash on hand to satisfy unexpected late-day member advance needs before committing excess funds to their IBDA counterparties at the end of the business day, thereby improving their overall liquidity flexibility.

FHFA expects that expanding the Banks' ability to use IBDA deposits for liquidity management would further benefit the Banks by reducing the overall cost of

holding liquidity assets due to higher yields available through IBDA's. Since 2018, the Bank System has achieved a spread on IBDA deposits above reverse repo and overnight Fed Funds sold transactions of approximately 7.5 and 6.7 basis points, respectively, indicating a lower cost to yield against instruments of comparable risk.

FHFA proposes including in the new definition of "authorized overnight investments" set forth in § 1277.1 the ability to expand without a rulemaking the types of overnight investments excluded from the general limit, and therefore subject only to the higher overall limit, to respond to changes in financial products and market conditions. The Banks would seek approval for such investments through the approval process set forth in FHFA's procedures regulation at 12 CFR part 1211. This would allow FHFA to update the instruments qualifying as authorized overnight investments without amending the regulation through rulemaking, significantly increasing the speed with which the Agency could respond to the evolving financial marketplace. FHFA requests comment on whether, as proposed, unsecured extensions of credit excluded from the general limit and subject only to the overall limit should be authorized by FHFA through the regulatory approval process, or whether any such changes should be subject to notice and comment rulemaking.

FHFA has considered whether unsecured deposits in non-interest-bearing deposit accounts such as settlement, payroll, or other transactional accounts should be considered unsecured extensions of credit and included in a Bank's calculation of its unsecured credit limits. Such deposits are considered on-balance sheet transactions under existing

§ 1277.7(f)(1)(i)<sup>17</sup> and therefore must be considered unsecured extensions of credit and subject to the unsecured credit limits. Further, nothing in the existing regulation excludes such deposits from the unsecured credit limits.

For purposes of this proposed rule, whether unsecured deposits in non-interest-bearing accounts such as settlement or payroll accounts would count toward the general limit or the overall limit would be determined by whether they meet the daily repayment requirement of the proposed definition of “authorized overnight investments,” as they would potentially qualify as “deposits in banks or trust companies” under that definition. FHFA is proposing that deposits that are not returned to the Bank or custodian each day would be subject to the lesser general limit, while funds that are returned to the Bank or custodian each day, as set forth in the proposed definition of “authorized overnight investments,” would be subject to the greater overall limit. FHFA requests comment on whether this interpretation of which accounts would be included in the definition of “authorized overnight investments” would create operational or other safety and soundness concerns for the Banks or their counterparties.

***B. Other Revisions to § 1277.7(a)(1)***

The proposed rule would also make several other revisions to § 1277.7(a)(1). FHFA proposes adding language to the introductory paragraph clarifying that measurement of unsecured credit exposure to a single counterparty also includes intra-day exposure and is not limited to overnight exposure. This language is intended to

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<sup>17</sup> This regulatory provision characterizes these accounts as “amortized cost” or “fair value” items as described in that calculation, which is generally irrelevant in regard to whether they should be considered unsecured extensions of credit.

clarify FHFA's expectations and ensure consistency among the Banks in how they manage intra-day unsecured credit extension exposure.

As discussed above, existing § 1277.7(a)(1) provides that the general limit is to be calculated by multiplying the maximum capital exposure limit percentage associated with the applicable FHFA Credit Rating category of the counterparty by the lesser of either (i) the Bank's total capital, or (ii) the counterparty's Tier 1 capital, or (if Tier 1 capital is unavailable) total capital. To provide clarity on what measure of total capital a Bank should use for purposes of determining compliance with the general and overall limits and avoid discrepancies between FHFA's unsecured limit calculations and the Bank's calculations, the proposed rule would revise § 1277.7(a)(1)(i) to specify that, for purposes of this calculation, a Bank's total capital is to be calculated as the lesser of the daily total or the most recent month-end total capital. FHFA does not expect that the proposed clarification would require the Banks to make any changes to their current methods of calculating month-end capital or daily capital. Similarly, § 1277.7(a)(1)(ii) would be revised to provide that the counterparty's total capital would be measured based on its most recent regulatory financial report filed with its appropriate regulator, as defined in 12 CFR 1263.1. FHFA expects that this proposed revision would provide greater certainty to the Banks about the measure of capital to use when calculating the regulatory limits, facilitating compliance review during examinations.

***C. Limits on Extensions of Credit to Affiliated Counterparties and GSEs—§§ 1277.7(b) & 1277.7(c)***

Existing § 1277.7(b) provides that the total amount of unsecured extensions of credit by a Bank to a group of affiliated counterparties, including sales of Fed Funds,

shall not exceed 30 percent of the Bank’s capital—a limit that applies in addition to the limits on extensions of unsecured credit to a single counterparty under § 1277.7(a). As a conforming change, FHFA proposes to revise § 1277.7(b) to replace the references to Fed Funds with references to the newly-defined “authorized overnight investments.” The proposed rule would also clarify that, for purposes of the affiliated counterparty limits, a Bank’s total capital must be calculated in the same manner as provided for the single counterparty limits under proposed § 1277.7(a)(1)(i). Similar revisions would also be made to § 1277.7(c), which provides that unsecured extensions of credit to a GSE that is operating with capital support or another form of direct financial assistance from the United States government that enables the GSE to repay those obligations shall not exceed a Bank’s total capital.

***D. Removing References to Sales of Federal Funds Subject to a Continuing Contract—§§ 1277.1 and 1277.7(d)***

Existing § 1277.7(d) provides that if a Bank revises its internal credit rating for any counterparty or obligation, it must assign the counterparty or obligation to the appropriate FHFA Credit Rating category based on the revised rating. If the revised internal rating results in a lower FHFA Credit Rating category, a Bank need not unwind or liquidate any existing transaction or position, but any subsequent extensions of unsecured credit must comply with the maximum capital exposure limit applicable to that lower rating category. The provision stipulates that the renewal of an existing unsecured extension of credit, “including any decision not to terminate any sales of federal funds subject to a continuing contract,” shall be considered a subsequent extension of unsecured credit that can be undertaken only in accordance with the lower limit.

The proposed rule would remove from this provision the reference to “sales of federal funds subject to a continuing contract” and replace it with a reference to “any automatic renewal of an authorized overnight investment.” FHFA is not aware of any Bank that participates in overnight Fed Funds sales that are subject to a continuing contract and considers the term obsolete. The purpose of the change would be to ensure that the regulation would address a similar concept to the extent it would be applicable now or in the future. As described above, funds in any automatically renewing overnight investment would need to be transferred to and from the Bank daily to be eligible for treatment under the overall limit or would otherwise be subject to the lesser general limit.

Existing § 1277.1 includes a definition of sales of federal funds subject to a continuing contract, which the proposed rule would delete, given that the term is obsolete and would no longer be referenced in the regulation.

#### ***E. Clarifying Reporting Requirements***

Existing § 1277.7(e)(1) requires each Bank to report to FHFA monthly on secured and unsecured extensions of credit arising from on- and off-balance sheet and derivative transactions to any counterparty and group of affiliated counterparties exceeding five percent of its total capital or the counterparty’s or affiliated counterparties’ Tier 1 capital or total capital. Existing § 1277.7(e)(2) also requires each Bank to report to FHFA monthly on total secured and unsecured extensions of credit arising from on- and off-balance sheet and derivative transactions to any single counterparty or group of affiliated counterparties exceeding five percent of the Bank’s total assets. FHFA is proposing to revise § 1277.7(e)(1) and (2) to replace the descriptions of the specific reporting

requirements with new language referencing FHFA’s Data Reporting Manual (DRM),<sup>18</sup> which sets forth detailed data reporting requirements for the Banks and in accordance with which the Banks are required to report under § 1277.8.

The DRM sets forth specific requirements for the reporting of unsecured credit data by each Bank, including data required to be reported under § 1277.7(e)(1) and (2). Since FHFA collects comprehensive information on secured and unsecured credit exposure through its DRM requirements, the detailed requirements in § 1277.7(e)(1) and (2) are redundant. FHFA proposes deleting them to avoid confusion and the possibility that the regulatory text may conflict with the DRM reporting requirements as FHFA’s supervisory reporting needs evolve. FHFA proposes to retain the violation self-reporting requirement of § 1277.7(e)(3), which is not currently covered in the DRM, and redesignate it as § 1277.7(e)(2).

Existing § 1277.7(e)(3) requires that a Bank “report promptly to FHFA” any extension of unsecured credit that exceeds any limit set forth in § 1277.7(a), (b), or (c). FHFA requests comment on whether the use of the term “promptly” in 1277.7(e)(3) is too ambiguous and open to different interpretations given the seriousness of the context and, if so, whether it should be revised to reference a more specific timeframe such as “two business days.” FHFA also requests comment on whether the provision should explicitly address how to notify FHFA in situations where the Bank may not identify a violation until well after the event occurred.

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<sup>18</sup> As defined in 12 CFR 1201.1 the “Data Reporting Manual or DRM” means a manual issued by FHFA and amended from time to time containing reporting requirements for the Regulated Entities. The DRM is one method through which FHFA implements its statutory authority under 12 U.S.C. 4514 to require regular and special reports from its regulated entities and communicates those requirements.



In coordination with the proposed revisions to the reporting requirements in 1277.7(e), FHFA proposes to add language clarifying FHFA's expectations regarding credit exposure reporting to § 1277.8. To avoid any ambiguity, FHFA proposes to add language highlighting that the Banks' reporting on matters addressed by part 1277 under the DRM includes information related to secured and unsecured credit exposures and extensions of credit in excess of limits, in addition to capital information. Banks would be required to report this information in accordance with the instructions provided in the DRM.

#### **IV. Considerations of Differences Between the Banks and the Enterprises**

Section 1313(f) of the Safety and Soundness Act requires the Director of FHFA, when promulgating regulations relating to the Banks, to consider the differences between the Banks and the Enterprises (Fannie Mae and Freddie Mac) as they relate to: the Banks' cooperative ownership structure; the mission of providing liquidity to members; the affordable housing and community development mission; their capital structure; and their joint and several liability.<sup>19</sup> The Director also may consider any other differences that are deemed appropriate. In preparing this proposed rule, the Director considered the differences between the Banks and the Enterprises as they relate to the above factors and determined that the rule is appropriate. FHFA requests comments regarding whether differences related to those factors should result in any revisions to the proposed rule.

#### **V. Paperwork Reduction Act**

The proposed rule would not contain any changes to information collection requirements that would require the approval of the Office of Management and Budget

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<sup>19</sup> See 12 U.S.C. 4513.

(OMB) under the Paperwork Reduction Act.<sup>20</sup> Therefore, FHFA has not submitted any information to OMB for review.

## **VI. Regulatory Flexibility Act**

The Regulatory Flexibility Act<sup>21</sup> (RFA) requires that a regulation that has a significant economic impact on a substantial number of small entities, small businesses, or small organizations must include an initial regulatory flexibility analysis describing the regulation's impact on small entities. Such an analysis need not be undertaken if the agency has certified that the regulation will not have a significant economic impact on a substantial number of small entities.<sup>22</sup> FHFA has considered the impact of the proposed rule under the RFA. FHFA certifies that the proposed rule, if adopted as a final rule, would not have a significant economic impact on a substantial number of small entities because the proposed rule applies only to the Banks, which are not small entities for purposes of the RFA.

## **VII. Providing Accountability Through Transparency Act of 2023**

The Providing Accountability Through Transparency Act of 2023<sup>23</sup> requires that a notice of proposed rulemaking include the internet address of a summary of not more than 100 words in length of a proposed rule, in plain language, that shall be posted on the internet website under section 206(d) of the E-Government Act of 2002<sup>24</sup> (commonly known as Regulations.gov). FHFA's proposal and the required summary can be found at <https://www.regulations.gov>.

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<sup>20</sup> 44 U.S.C. 3501 *et seq.*

<sup>21</sup> 5 U.S.C. 601 *et seq.*

<sup>22</sup> 5 U.S.C. 605(b).

<sup>23</sup> 5 U.S.C. 553(b)(4).

<sup>24</sup> 44 U.S.C. 3501 note.

## List of Subjects for 12 CFR Part 1277

Capital, Credit, Federal home loan banks, Investments, Reporting and recordkeeping requirements.

Accordingly, for reasons stated in the Preamble, and under the authority of 12 U.S.C. 1426, 1436(a), 1440, 1443, 1446, 4511, 4513, 4514, 4526, 4612, FHFA proposes to amend subchapter D of chapter XII of title 12 of the Code of Federal Regulations as follows:

### **PART 1277—FEDERAL HOME LOAN BANK CAPITAL REQUIREMENTS, CAPITAL STOCK AND CAPITAL PLANS**

1. The authority citation for part 1277 continues to read as follows:

**Authority:** 12 U.S.C. 1426, 1436(a), 1440, 1443, 1446, 4511, 4513, 4514, 4526, and 4612.

2. Amend § 1277.1 by removing the definition of “Sales of federal funds subject to a continuing contract” and adding the definition of “Authorized overnight investments” in alphabetical order to read as follows:

#### **§ 1277.1 Definitions.**

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*Authorized overnight investments* means an investment with a maturity of one day or less where the principal is returned to the Bank or custodian each day, including sales of federal funds (known as Federal funds sold), deposits in banks or trust companies as defined in § 1267.1 of this chapter, but excluding demand accounts in Federal Reserve Banks, and other similar investments approved by FHFA in accordance with § 1211.3 of this chapter.

\* \* \* \* \*

3. Amend § 1277.7 by revising paragraphs (a)(1) and (2), and (b), (c), (d), and (e) to read as follows:

**§ 1277.7 Limits on unsecured extensions of credit; reporting requirements.**

(a) \* \* \*

(1) *General limits.* All unsecured extensions of credit by a Bank to a single counterparty that arise from the Bank's on- and off-balance sheet and derivative transactions, including intra-day exposure (but excluding authorized overnight investments) shall not exceed the product of the maximum capital exposure limit applicable to such counterparty, as determined in accordance with the following Table 1 to this section, multiplied by the lesser of:

(i) The Bank's total capital calculated as the lesser of the daily total or the most recent month end; or

(ii) The counterparty's Tier 1 capital, or if Tier 1 capital is not available, total capital (in each case as defined by the counterparty's appropriate regulator, as defined in § 1263.1 of this chapter) or some similar comparable measure identified by the Bank based on the counterparty's most recent regulatory financial report filed with its appropriate regulator.

(2) *Overall limits including authorized overnight investments.* All unsecured extensions of credit by a Bank to a single counterparty that arise from the Bank's on- and off-balance sheet and derivative transactions, including authorized overnight investments, shall not exceed twice the limit calculated pursuant to paragraph (a)(1) of this section.

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(b) *Unsecured extensions of credit to affiliated counterparties—(1) In general.*

The total amount of unsecured extensions of credit by a Bank to a group of affiliated counterparties that arise from the Bank's on- and off-balance sheet and derivative transactions, including authorized overnight investments, shall not exceed 30 percent of the Bank's total capital as calculated in accordance with paragraph (a)(1)(i) of this section.

(2) *Relation to individual limits.* The aggregate limits calculated under paragraph (b)(1) of this section shall apply in addition to the limits on extensions of unsecured credit to a single counterparty imposed by paragraph (a) of this section.

(c) *Special limits for certain GSEs.* Unsecured extensions of credit by a Bank that arise from the Bank's on- and off-balance sheet and derivative transactions, including from the purchase of any authorized overnight investments, with a GSE that is operating with capital support or another form of direct financial assistance from the United States government that enables the GSE to repay those obligations, shall not exceed the Bank's total capital as calculated in accordance with paragraph (a)(1)(i) of this section.

(d) *Extensions of unsecured credit after reduced rating.* If a Bank revises its internal credit rating for any counterparty or obligation, it shall assign the counterparty or obligation to the appropriate FHFA Credit Rating category based on the revised rating. If the revised internal rating results in a lower FHFA Credit Rating category, then any subsequent extensions of unsecured credit shall comply with the maximum capital exposure limit applicable to that lower rating category, but a Bank need not unwind or liquidate any existing transaction or position that complied with the limits of this section at the time it was entered. For purposes of this paragraph (d), the renewal of an existing

unsecured extension of credit, including any decision not to terminate any automatic renewal of an authorized overnight investment, shall be considered a subsequent extension of unsecured credit that can be undertaken only in accordance with the lower limit.

*(e) Reporting requirements—(1) Secured and unsecured extensions of credit.*

Each Bank shall report to FHFA information concerning the Bank's secured and unsecured extensions of credit arising from on- and off-balance sheet and derivative transactions to any counterparty and group of affiliated counterparties, including information related to the Bank's total capital, the counterparty's total capital, and assigned FHFA Credit Rating category per Table 1 to § 1277.7 of this part, in accordance with instructions provided in the FHFA Data Reporting Manual as required in § 1277.8.

*(2) Extensions of credit in excess of limits.* A Bank shall report promptly to FHFA any extension of unsecured credit that exceeds any limit set forth in paragraph (a), (b), or (c) of this section. In making this report, a Bank shall provide the name of the counterparty or group of affiliated counterparties to which the excess unsecured credit has been extended, the dollar amount of the applicable limit which has been exceeded, the dollar amount by which the Bank's extension of unsecured credit exceeds such limit, the dates for which the Bank was not in compliance with the limit, and a brief explanation of the circumstances that caused the limit to be exceeded.

\* \* \* \* \*

4. Revise § 1277.8 to read as follows:

**§ 1277.8 Reporting requirements.**

