pools of assets times a factor associated with the putative credit rating of the assets or pools of assets as determined by the Finance Board on a case-by-case basis. For single-family mortgage assets, the factors are as set forth in Table 1 of this part.

<table>
<thead>
<tr>
<th>Putative rating of single-family mortgage assets</th>
<th>Percentage applicable to on-balance sheet equivalent value of AMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third Highest Investment Grade</td>
<td>0.90</td>
</tr>
<tr>
<td>Fourth Highest Investment Grade</td>
<td>1.50</td>
</tr>
<tr>
<td>Highest Below Investment Grade</td>
<td>2.25</td>
</tr>
<tr>
<td>Second Highest Below Investment Grade</td>
<td>2.60</td>
</tr>
<tr>
<td>All Other Below Investment Grade</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(b) Recalculation of credit enhancement. For risk-based capital purposes, each Bank shall recalculate the estimated credit rating of a pool of AMA if there is evidence that a decline in the credit quality of that pool may have occurred.

PART 956—FEDERAL HOME LOAN BANK INVESTMENTS

§ 956.1 Definitions.

As used in this part:

Deposit in banks or trust companies means the meaning set forth in §965.1 of this chapter.

Derivative contract means generally a financial contract the value of which is derived from the values of one or more underlying assets, reference rates, or indices of asset values, or credit-related events. Derivative contracts include interest rate, foreign exchange rate, equity, precious metals, commodity, and credit contracts, and any other instruments that pose similar risks.

Investment grade means:

(1) A credit quality rating in one of the four highest credit rating categories by an NRSRO and not below the fourth highest credit rating category by any NRSRO; or

(2) If there is no credit quality rating by an NRSRO, a determination by a Bank that the issuer, asset or instrument is the credit equivalent of investment grade using credit rating standards available from an NRSRO or other similar standards.

Repurchase agreement means an agreement between a seller and a buyer whereby the seller agrees to repurchase a security or similar securities at an agreed upon price, with or without a stated time for repurchase.

[67 FR 43985, Mar. 20, 2002]

§ 956.2 Authorized investments.

In addition to assets enumerated in parts 950 and 955 of this chapter and subject to the applicable limitations set forth in this part, in the Financial Management Policy and in part 980 of this chapter, each Bank may invest in:

(a) Obligations of the United States;

(b) Deposits in banks or trust companies;

(c) Obligations, participations or other instruments of, or issued by, Fannie Mae or Ginnie Mae;

(d) Mortgages, obligations, or other securities that are, or ever have been, sold by Freddie Mac pursuant to section 305 or 306 of the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1454 or 1455);
§ 956.3 Prohibited investments and prudential rules.

(a) Prohibited investments. A Bank may not invest in:

(1) Instruments that provide an ownership interest in an entity, except for investments described in §§ 940.3(e) and (f) of this chapter;

(2) Instruments issued by non-United States entities, except United States branches and agency offices of foreign commercial banks;

(3) Debt instruments that are not rated as investment grade, except:

(i) Investments described in §940.3(e) of this chapter;

(ii) Debt instruments that were downgraded to a below investment grade rating after acquisition by the Bank;

(4) Whole mortgages or other whole loans, or interests in mortgages or loans, except:

(i) Acquired member assets;

(ii) Investments described in §940.3(e) of this chapter;

(iii) Marketable direct obligations of state, local, or tribal government units or agencies, having at least the second highest credit rating from an NRSRO, where the purchase of such obligations by the Bank provides to the issuer the customized terms, necessary liquidity, or favorable pricing required to generate needed funding for housing or community lending;

(iv) Mortgage-backed securities, or asset-backed securities collateralized by manufactured housing loans or home equity loans, that meet the definition of the term "securities" under 15 U.S.C. 77b(a)(1); and

(v) Loans held or acquired pursuant to section 12(b) of the Act (12 U.S.C. 1432(b)).

(b) Foreign currency or commodity positions prohibited. A Bank may not take a position in any commodity or foreign currency. A Bank may participate in consolidated obligations denominated in a currency other than U.S. Dollars or linked to equity or commodity prices, provided that the Bank meets the requirements of §966.8(d) of this chapter, and all other applicable requirements related to issuing consolidated obligations.

§ 956.4 Risk-based capital requirement for investments.

Each Bank shall hold retained earnings plus general allowance for losses as support for the credit risk of all investments that are not rated by an NRSRO, or are rated or have a putative rating below the second highest credit rating, in an amount equal to or greater than the outstanding balance of the investments multiplied by:

(a) A factor associated with the credit rating of the investments as determined by the Finance Board on a case-by-case basis for rated assets to suffice to raise the credit quality of the asset to the second highest credit rating category; and

(b) 0.08 for assets having neither a putative nor actual rating.

§ 956.5 Authorization for derivative contracts and other transactions.

A Bank may enter into the following types of transactions:

(a) Derivative contracts;

(b) Standby letters of credit, pursuant to the requirements of part 960 of this chapter;

(c) Forward asset purchases and sales;

(d) Commitments to make advances; and

(e) Commitments to make or purchase other loans.