§ 652.40 Stress tests for mortgage securities.

(a) You must perform stress tests to determine how interest rate changes will affect the cashflow and price of each mortgage security that you purchase and hold, except for adjustable rate mortgage securities that reprice at intervals of 12 months or less and are tied to an index. You must also use stress tests to gauge how interest rate fluctuations on mortgage securities affect your capital and earnings. The stress tests must be able to measure the price sensitivity of mortgage instruments over different interest rate/yield curve scenarios and be consistent with any asset liability management and interest rate risk policies. The methodology that you use to analyze mortgage securities is within the risk limits of your board’s investment policies. The stress tests must enable you to determine at the time of purchase and each subsequent quarter that the mortgage security does not expose your capital or earnings to excessive risks.

(b) You must rely on verifiable information to support all your assumptions, including prepayment and interest rate volatility assumptions. You must document the basis for all assumptions that you use to evaluate the security and its underlying mortgages. You must also document all subsequent changes in your assumptions. If at any time after purchase, a mortgage security no longer complies with requirements in this section, Farmer Mac’s management must report to the Corporation’s board of directors in accordance with § 652.10(g).

Effective Date Note: At 77 FR 66382, Nov. 5, 2012, § 652.40 was removed and reserved, effective 30 days after publication in the Federal Register during which either or both Houses of Congress are in session.