I. Statutory and Regulatory Background

In 1989, Congress established RefCorp as a vehicle to provide funding for the Resolution Trust Corporation to finance its efforts to resolve the savings and loan crisis. 12 U.S.C. 1441b(a), (b). RefCorp issued approximately $30 billion of long-term bonds, the last of which will mature in April 2030. The interest due on the RefCorp bonds is paid from several sources, including contributions from the Banks.

As initially enacted, the law required the Banks to contribute $300 million annually toward the RefCorp interest payments. Public Law 101–73, Title V, § 511(a), 103 Stat. 394, (August 9, 1989).

In 1999, Congress amended the law to require each Bank to pay 20 percent of its net earnings annually toward the RefCorp payments. Public Law 106–102, Title VI, § 607(a), 113 Stat. 1455, (November 12, 1999), codified at 12 U.S.C. 1441b(f)(2)(C)(i). The Banks’ payment obligation was to continue until the value of all payments made by the Banks to RefCorp equaled the value of a benchmark annuity of $300 million per year that commenced on the date that the RefCorp bonds had been issued and ended on the last maturity date for the RefCorp bonds, which is April 15, 2030.

The law further directed the Federal Housing Finance Board (Finance Board) to determine annually the extent to which the value of the Banks’ contributions for that year exceeded or fell short of the value of the benchmark annuity. In determining those values, the law required the Finance Board to use present-value factors established in consultation with the Secretary of the Treasury and conducting the calculations in accordance with 12 CFR Part 997, FHFA determined that the Banks’ remaining RefCorp payments and effectively shortens the duration of their repayment obligation.

Since 1999, all but two of the Banks’ quarterly RefCorp contributions have exceeded the $75 million benchmark, which has caused the termination date to move incrementally closer. In its most recent report to Congress on the RefCorp obligation, FHFA projected that if the Banks’ quarterly earnings subsequently to December 31, 2010, were to equal their average quarterly income over the preceding four quarters, then their final RefCorp contribution would be made with the payment due on July 15, 2011.1

II. Termination of Payment Obligation

The Banks make their RefCorp contributions on a quarterly basis, and FHFA determines how the value of those payments compares to the value of the benchmark annuity on a quarterly basis as well. To the extent that any quarterly RefCorp payments exceed $75 million (one quarter of the $300 million benchmark annuity) FHFA applies the excess portion to simulate the purchase of zero-coupon Treasury bonds, which “defeases” the most-distant of the Banks’ remaining RefCorp payments and effectively shortens the duration of their repayment obligation.

Since 1999, all but two of the Banks’ quarterly RefCorp contributions have exceeded the $75 million benchmark, which has caused the termination date to move incrementally closer. In its most recent report to Congress on the RefCorp obligation, FHFA projected that if the Banks’ quarterly earnings subsequent to December 31, 2010, were to equal their average quarterly income over the preceding four quarters, then their final RefCorp contribution would be made with the payment due on July 15, 2011.1

After consulting with the Department of the Treasury and conducting the calculations in accordance with 12 CFR Part 997, FHFA determined that the remaining amount owed by the Banks for the RefCorp debt service was $75,148,203.13, which amount the Banks paid on July 15, 2011.

Accordingly, the Director has determined that the payment made on July 15, 2011, caused the value of all RefCorp payments made by the Banks to that date to equal the value of the benchmark annuity, which terminates the obligation of the Banks to contribute toward the debt service for the RefCorp bonds.


FEDERAL RESERVE SYSTEM

Formations of, Acquisitions by, and Mergers of Bank Holding Companies

The companies listed in this notice have applied to the Board for approval, pursuant to the Bank Holding Company Act of 1956 (12 U.S.C. 1841 et seq.) (BHC Act), Regulation Y (12 CFR part 225), and all other applicable statutes

1 See Letters from Edward J. DeMarco, Acting Director, to Senator Tim Johnson, Chairman, and Senator Richard C. Shelby, Ranking Member, of the Committee on Banking, Housing, and Urban Affairs, and to Representative Spencer Bachus, Chairman, and Representative Barney Frank, Ranking Member, of the Committee on Financial Services, all dated February 4, 2011.