



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

NEWS RELEASE

FOR IMMEDIATE RELEASE

Thursday, September 12, 2002

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www.ofheo.gov

OFHEO PROPOSES AMENDMENT TO RISK-BASED CAPITAL RULE

(Language appearing in today's Federal Register attached)

WASHINGTON, D.C. —The Office of Federal Housing Enterprise Oversight (OFHEO), safety and soundness regulator for Fannie Mae and Freddie Mac (the Enterprises), today proposed an amendment to the risk-based capital rule, which includes corrective and various technical changes.

Director Falcon previously stated that the rule would be amended as necessary to ensure it applies the most up-to-date standards to the capital requirements of the Enterprises.

The language is attached as it appears in today's *Federal Register*. The comment period ends Monday, September 23, 2002.

###

OFHEO was established as an independent entity within the Department of Housing and Urban Development by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550). OFHEO's primary mission is ensuring the capital adequacy and financial safety and soundness of Fannie Mae and Freddie Mac.

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a person who willfully and intentionally provides any false or inaccurate information to the Federal Crop Insurance Corporation (FCIC) or to an approved insurance provider with respect to a policy or plan of FCIC insurance after notice and an opportunity for a hearing on the record, will be subject to one or more of the sanctions described in section 1515 (h)(3). In section 1515(h)(3), the FCIA specifies that in the case of a violation committed by a producer, the producer may be disqualified for a period of up to 5 years from receiving any monetary or non-monetary benefit under a number of programs. The list includes, but is not limited to, benefits under:

- (1) Title V of the FCIA.
- (2) The Agricultural Market Transition Act (7 U.S.C. 7201 *et seq.*), including the noninsured crop disaster assistance producer under section 196 of that Act (7 U.S.C. 7333).
- (3) The Agricultural Act of 1949 (7 U.S.C. 1421 *et seq.*).
- (4) The Commodity Credit Corporation Charter Act (15 U.S.C. 714 *et seq.*).
- (5) The Agricultural Adjustment Act of 1938 (7 U.S.C. 1281 *et seq.*).
- (6) Title XII of the Food Security Act of 1985 (16 U.S.C. 3801 *et seq.*).
- (7) Any law that provides assistance to a producer of an agricultural commodity affected by a crop loss or a decline in prices of agricultural commodities.

(b) Violation determinations in this connection are made by FCIC. However, upon notice from FCIC to the Commodity Credit Corporation (CCC) that a producer has been found to have committed a violation to which paragraph (a) of this section applies, that person shall be considered ineligible for payments administered by the Farm Service Agency (FSA) or made using Commodity Credit Corporation funds for the same period of time for which, as determined by FCIC, the producer will be ineligible for crop insurance benefits of the kind referred to in paragraph (a)(1) of this section. Appeals of the determination of ineligibility will be administered under the rules set by FCIC.

(c) Other sanctions may also apply.

Signed in Washington, DC, on September 3, 2002.

James R. Little,

Executive Vice President, Commodity Credit Corporation.

[FR Doc. 02-23234 Filed 9-11-02; 8:45 am]

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

12 CFR Part 1750

RIN 2550-AA26

Office of Federal Housing Enterprise Oversight; Risk-Based Capital

AGENCY: Office of Federal Housing Enterprise Oversight, HUD.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Office of Federal Housing Enterprise Oversight (OFHEO) is proposing to make technical and correcting amendments to Appendix A to Subpart B of 12 CFR Part 1750 Risk-Based Capital. The proposed amendments are intended to enhance the accuracy of the calculation of the risk-based capital requirement for the Enterprises.

DATES: Comments regarding this Notice of Proposed Rulemaking must be received in writing on or before September 23, 2002.

FOR FURTHER INFORMATION CONTACT: Robert Pomeranz, Senior Accounting Specialist, Office of Risk Analysis and Model Development, telephone (202) 414-3796 or Jamie Schwing, Associate General Counsel, telephone (202) 414-3787 (not toll free numbers), Office of Federal Housing Enterprise Oversight, Fourth Floor, 1700 G Street, NW., Washington, DC 20552. The telephone number for the Telecommunications Device for the Deaf is (800) 877-8339.

SUPPLEMENTARY INFORMATION:

Background

OFHEO published a final regulation setting forth a risk-based capital stress test on September 13, 2001, 12 CFR part 1750 (the Rule), which formed the basis for determining the risk-based capital requirement for the federally sponsored housing enterprises-Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises).¹

This document proposes to make minor technical corrections to the Rule and to update the treatment of Financial Accounting Standard 133 (FAS 133)² in the Rule. These changes relate to:

(1) Capital classification, which would be updated to cross reference to the Prompt Supervisory Response and

¹ Risk-based Capital, 66 FR 47730 (September 13, 2001), 12 CFR part 1750, *as amended*, 67 FR 11850 (March 15, 2002), 67 FR 19321 (April 19, 2002).

² Financial Accounting Standards Board Statement of Financial Accounting Standard 133, "Accounting for Derivative Instruments and Hedging Activities," June 1998.

Corrective Action regulation, 12 CFR part 1777;

(2) Out-of-date third party sources of information related to interest rate indexes (e.g. 30-year CMT, Bloomberg Tickers), which would be updated to reflect currently available indexes. Specifically, the 30-year constant maturity yield is no longer reported by the Federal Reserve in the H.15 Release. In its place, the U.S. Treasury Department has developed a methodology using its "Long-Term Average Rate" and "Extrapolation Factors" designed to generate a substitute for the 30-year CMT yield series discontinued in February 2002. Similarly, the Bloomberg tickers for the Federal Agency Cost of Funds would be updated. Table 3-18 would be amended to reflect these changes;

(3) Credit Ratings in Table 3-30, which would be updated to include certain credit ratings used in the marketplace that were not listed in the original table. Specifically, Moody assigns an additional rating from VMIG1 through VMIG3 to quantify the risks of the demand feature, and Standard & Poor's rates short term issuances as SP-1+, SP-1, SP-2, and SP-3;

(4) Paragraph 3.6.3.4.3.1[a]3.a on single family default and prepayment explanatory variables, which would be replaced in full, including equations, to correct the parenthetical ($q = -7, -6, \dots, 0, 1, \dots, 40$);

(5) Table 3-35, in which the explanatory variable categories for Relative Spread (RS_q) in the explanatory variable column were identified incorrectly;

(6) The equation related to mortgage credit enhancement procedures at paragraph 3.6.3.6.4.3, which would be corrected to reflect the fact that in extreme circumstances (*i.e.*, when defaults are zero), an equation in section 3.6.3.6.4.3 Mortgage Credit Enhancement Procedures produces "divide by zero" errors in the computer code;

(7) Table 3-56 and 3-57, with respect to the definition for "unamortized balance" for the RBC input for single class MBS cash flows;

(8) Table 3-59, which incorrectly reported values for the weighted average Original LTV, rather than the weighted average Amortized Original LTV (AOLTV) of the combined Enterprise portfolios by Original LTV category, as of 2Q2000. Also, the specific amounts would be removed from column 2 and column 3 of the table, because OFHEO plans to update this table annually. A footnote to the table notes that this information will be updated according

to OFHEO guideline #404 and will be available on the OFHEO website;³

(9) The equation in 3.7.3.1.g.2 for calculating haircuts for mortgage backed securities, which mistakenly specified an addition sign (+) rather than a multiplication sign (x) in the **Federal Register** version of the document;

(10) Table 3–68, which would be revised to reflect that the Table relates to long caps and floors;

(11) The calculation of common stock dividends to reflect the effects of FAS 133 adjustments on after tax income; and

(12) The calculation of the risk-based capital requirement to account for the effects of FAS 133 on Total Capital.

All of the proposed amendments address provisions of the Rule that are out-of-date, incorrect, or contain typographical errors. Most of the amendments do not materially impact the risk-based capital requirement for either Enterprise and would improve the accuracy of the calculation of the risk-based capital requirement for each Enterprise.

The change to the calculation of the risk-based capital requirement to account for the effect of FAS 133 on Total Capital will impact the risk-based capital requirement in any particular quarter, but will not consistently raise or consistently lower capital requirements for the Enterprises. If the change had been applied in the first quarter of 2002, Freddie Mac's risk-based capital requirement would have increased by approximately \$1.652 billion (an amount that would have left Freddie Mac with a \$14.028 billion surplus) and Fannie Mae's requirement would have increased by about \$121 million (an amount that would have left Fannie Mae with a \$5.941 billion surplus) if the adjustments had been made at that time. Depending upon the market value of an Enterprise's derivative portfolio, however, the proposed change could decrease, rather than increase an Enterprise's capital in a particular quarter.

The initial Rule included an adjustment that anticipated FAS 133, but at that time, the full impact of FAS 133 on the Enterprises' capital requirements was not clear. With the benefit of subsequent analysis, OFHEO now proposes to add precision to the FAS 133 adjustment, as explained below.

The stress test mandated by Congress determines for specific economic scenarios, the impact on Enterprise capital over time of the income and expenses associated with all on- and off-balance sheet positions. The stress test scenarios involve changing interest rates. FAS 133 requires that many previously off-balance sheet derivative positions be reflected on the balance sheet at their fair values. These fair values reflect the present values of gains or losses that are expected, given current interest rates, to be realized over time.

In the Rule, OFHEO indicated that, to the extent that Generally Accepted Accounting Principles (GAAP) was applicable, the risk-based capital requirement calculation should adhere to GAAP. The Rule, however, also recognized that, in certain situations, a rigid conformity to GAAP would not be possible given the stylized nature of the stress test. OFHEO, therefore, determined that with respect to FAS 133, it would be "impracticable and unreasonably speculative to make mark-to-market adjustments over the ten-year stress test."⁴ Consistent with that determination, OFHEO stated that the stress test would not reflect derivatives at their fair market values during the stress test as required by FAS 133. Instead, these assets are adjusted to an amortized cost basis at the start of the stress test.⁵

The stress test, therefore, reflects the effectiveness of hedges by considering their cash flows over ten years, without marking positions to market monthly over the ten years of the stress period. Thus, before applying the stress test, OFHEO backs out the effects of FAS 133 from Enterprise balance sheets, reflecting assets, liabilities and off-balance sheet items at amortized cost.

Per Section 3.10.3.6.2[a] 1.b of the Rule, the carrying value of derivative instruments and related hedged items that are designated Fair Value Hedges are reversed, increasing or decreasing retained earnings. The capital value arrived at after these adjustments (starting capital) is available at the beginning of, and is depleted during, the stress test (per Section 3.12.2). This starting capital value differs from "Total Capital" as defined in section 1750.11(n) of the regulation (and in the 1992 Act, 12 U.S.C. 4502 (18)) and, as publicly disclosed by the Enterprises. Unlike the starting capital, Total Capital does not include the starting position adjustments reversing the effects of FAS 133. The adjustments affect the amount

of retained earnings throughout the stress test, a critical element in computing the risk-based capital requirement. Because the 1992 Act requires that the risk-based capital surplus or deficit must be based on Total Capital (12 U.S.C. 4611), it is appropriate to adjust the amount of capital depleted during the stress test to add back in the effects of FAS 133. For this reason, the proposed amendment adds FAS 133 starting-position adjustments that affect retained earnings (which may be positive or negative amounts) to the amount of capital consumed during the stress test. Implementation of the recommended treatment will result in a risk-based capital requirement calculated on a basis more consistent with the calculation of Total Capital.

This proposal is not expected to generate significant commentary, as all of the proposed amendments are technical in nature and address provisions of the Rule that are out-of-date, incorrect or contain typographical errors. Accordingly, OFHEO has determined that the ten-day comment period provides sufficient opportunity for public response.

Regulatory Impact

Executive Order 12866, Regulatory Planning and Review

This document contains proposed amendments to the Rule, which was designated a major rule by the Office of Management and Budget (OMB). The proposed amendments provide that Enterprise risk-based capital requirements would be more consistent with both statutory requirements and Enterprise disclosures. OFHEO has determined that the amendments to the Rule are not economically significant for purposes of Executive Order 12866. OFHEO has not found evidence that the amendments would require the Enterprises to expend more than \$100 million nor that they would have a cumulative impact of that amount on the economy. The impact of the amendment is to align risk with capital more accurately, but the amendments do not consistently raise or lower capital requirements for the Enterprises. Further, the adjustments proposed herein are of a technical nature that address accounting and reporting concerns and do not involve novel policy issues. Therefore, this amendment is not a "significant rule" under Executive Order 12866.

Paperwork Reduction Act

These proposed amendments do not contain any information collection

³ The OFHEO guidelines referred to in this technical amendment are published on OFHEO's web site at: <http://www.OFHEO.gov>. Some guidelines may be pending review at the time of publication, but will be made publicly available in the near future.

⁴ 66 FR 47786.

⁵ 66 FR 47786.

requirements that require the approval of the Office of Management and Budget under the Paperwork Reduction Act (44 U.S.C. 3501 *et seq.*).

Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) 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. 5 U.S.C. 605(b). OFHEO has considered the impact of the regulation under the Regulatory Flexibility Act. The General Counsel of OFHEO certifies that the proposed regulation is not likely to have a significant economic impact on a substantial number of small business entities because the regulation is applicable only to the Enterprises, which are not small entities for purposes of the Regulatory Flexibility Act.

List of Subjects in 12 CFR Part 1750

Capital classification, Mortgages, Risk-based capital.

Accordingly, for the reasons stated in the preamble, OFHEO proposes to amend 12 CFR part 1750 as follows:

PART 1750—CAPITAL

1. The authority citation for part 1750 continues to read as follows:

Authority: 12 U.S.C. 4513, 4514, 4611, 4612, 4614, 4615, 4618.

2. Amend appendix A to subpart B of part 1750 as follows:

- a. Revise Table 3–3 in paragraph 3.1.2.1 [c];
- b. Revise Table 3–18 in paragraph 3.1.3.1 [c];
- c. Revise paragraph 3.3.1 [b];
- d. Revise Table 3–30 in paragraph 3.5.3 [a] 2.a.;
- e. Revise paragraph 3.6.3.4.3.1 [a] 3.a.;
- f. Revise Table 3–35 in paragraph 3.6.3.4.3.2 [a] 1.;
- g. In paragraph 3.6.3.6.3.3 [a] 1., remove the term “GL_m” both places it appears and replace it with “GLS_m”.
- h. In paragraph 3.6.3.6.4.3 [a] 5., after the words “Defaulted UPB:” and before the equation, by adding the following equation:

$$\text{If } DEF_m = 0 \text{ then } ALPD_m^{DCC} = 0$$

i. In paragraph 3.7.2.1.1., Table 3–56, in the row entitled “Unamortized Balance”, remove the three sentences in the Description column and replace them with the following four sentences: “The sum of all unamortized discounts, premiums, fees, commissions, etc. If proceeds from debt or amount paid for an asset total greater than par, report the premium as a positive number. If proceeds from debt or amount paid for an asset total less than par, report the discount as a negative number. Report all fees as a negative number.”

j. In paragraph 3.7.2.1.2 [a], Table 3–57, in the row entitled “Unamortized Balance”, remove the three sentences in the Description column and replace them with the following four sentences: “The sum of all unamortized discounts, premiums, fees, commissions, etc.

If proceeds from debt or amount paid for an asset total greater than par, report the premium as a positive number. If proceeds from debt or amount paid for an asset total less than par, report the discount as a negative number. Report all fees as a negative number.”

- k. Revise Table 3–59 in paragraph 3.7.2.3;
- l. Revise paragraph 3.7.3.1 [g] 2.;
- m. Revise Table 3–68 in paragraph 3.8.3.6.1 [e] 2.;
- n. Revise paragraph 3.10.3.2 [a] 2.;
- o. In paragraph 3.11.2 [a], remove the cross reference “1750.2(c)” and replace it with the cross reference “1750.12(c)”;
- p. Revise paragraph 3.11.3 [c];
- q. In paragraph 3.12.2 [a], add the words “outputs and selected inputs from” after the words “Alternative Modeling Treatments, and”; and
- r. Add new paragraph 3.12.3 [a] 9. after paragraph 3.12.3 [a] 8.

The revisions and additions read as follows:

Appendix A to Subpart B of Part 1750—Risk-Based Capital Test Methodology and Specifications

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 3.1.2.1. * * *
 [c] * * *

TABLE 3–3.—ADDITIONAL SINGLE FAMILY LOAN CLASSIFICATION VARIABLES

Variable	Description	Range
Single Family Product Code	Identifies the mortgage product types for single family loans	Fixed Rate 30YR. Fixed Rate 20YR. Fixed Rate 15YR. 5 Year Fixed Rate Balloon. 7 Year Fixed Rate Balloon. 10 Year Fixed Rate Balloon. 15 Year Fixed Rate Balloon. Adjustable Rate. Step Rate ARMs. Second Lien. Other.
Census Division	The Census Division in which the property resides. This variable is populated based on the property's state code.	East North Central. East South Central. Middle Atlantic. Mountain. New England. Pacific. South Atlantic. West North Central. West South Central.
Relative Loan Size	Assigned classes for the loan amount at origination divided by the simple average of the loan amount for the origination year and for the state in which the property is located. Average loan size for the appropriate quarter is provided by OFHEO in accordance with OFHEO guideline #403, based upon data from both Enterprises. It is expressed as a decimal.	0<=Size<=0.4. 0.4<Size<=0.6. 0.6<Size<=0.75. 0.75<Size<=1.0. 1.0<Size<=1.25. 1.25<Size<=1.5. Size>1.5.

* * * * *

[c] * * *

3.1.3.1 * * *

TABLE 3—18.—INTEREST RATE AND INDEX INPUTS

Interest Rate Index	Description	Source
1 MO Treasury Bill	One-month Treasury bill yield, monthly simple average of daily rate, quoted as actual/360	Bloomberg Generic 1 Month U.S. Treasury bill Ticker: GB1M (index)
3 MO CMT	Three-month constant maturity Treasury yield, monthly simple average of daily rate, quoted as bond equivalent yield	Federal Reserve H.15 Release
6 MO CMT	Six-month constant maturity Treasury yield, monthly simple average of daily rate, quoted as bond equivalent yield	Federal Reserve H.15 Release
1 YR CMT	One-year constant maturity Treasury yield, monthly simple average of daily rate, quoted as bond equivalent yield	Federal Reserve H.15 Release
2 YR CMT	Two-year constant maturity Treasury yield, monthly simple average of daily rate, quoted as bond equivalent yield	Federal Reserve H.15 Release
3 YR CMT	Three-year constant maturity Treasury yield, monthly simple average of daily rate, quoted as bond equivalent yield	Federal Reserve H.15 Release
5 YR CMT	Five-year constant maturity Treasury yield, monthly simple average of daily rate, quoted as bond equivalent yield	Federal Reserve H.15 Release
10 YR CMT	Ten-year constant maturity Treasury yield, monthly simple average of daily rate, quoted as bond equivalent yield	Federal Reserve H.15 Release
20 YR CMT	Twenty-year constant maturity Treasury yield, monthly simple average of daily rate, quoted as bond equivalent yield	Federal Reserve H.15 Release
30 YR CMT	Thirty-year constant maturity Treasury yield, monthly simple average of daily rate, quoted as bond equivalent yield after February 15, 2002, estimated according to OFHEO guideline #402	Federal Reserve H.15 Release factors used for estimation, U.S. Dept. of Treasury
Overnight Fed Funds (Effective)	Overnight effective Federal Funds rate, monthly simple average of daily rate	Federal Reserve H.15 Release
1 Week Federal Funds	1 week Federal Funds rate, monthly simple average of daily rates	Bloomberg Term Fed Funds U.S. Domestic Ticker: GFED01W(index)
6 Month Fed Funds	6 month Federal Funds rate, monthly simple average of daily rates	Bloomberg Term Fed Funds U.S. Domestic Ticker: GFED06M(index)
Conventional Mortgage Rate	FHLMC (Freddie Mac) contract interest rates for 30 YR fixed-rate mortgage commitments, monthly average of weekly rates	Federal Reserve H.15 Release
FHLB 11th District COF	11th District (San Francisco) weighted average cost of funds for savings and loans, monthly	Bloomberg Cost of Funds for the 11th District Ticker: COF11 (index)
1 MO LIBOR	One-month London Interbank Offered Rate, average of bid and asked, monthly simple average of daily rates, quoted as actual/360	British Bankers Association Bloomberg Ticker: US0001M (index)
3 MO LIBOR	Three-month London Interbank Offered Rate, average of bid and asked, monthly simple average of daily rates, quoted as actual/360	British Bankers Association Bloomberg Ticker: US0003M (index)
6 MO LIBOR	Six-month London Interbank Offered Rate, average of bid and asked, monthly simple average of daily rates, quoted as actual/360	British Bankers Association Bloomberg Ticker: US0006M (index)
12 MO LIBOR	One-year London Interbank Offered Rate, average of bid and asked, monthly simple average of daily rates, quoted as actual/360	British Bankers Association Bloomberg Ticker: US0012M (index)
Prime Rate	Prevailing rate as quoted, monthly average of daily rates	Federal Reserve H.15 Release
1 MO Federal Agency COF	One-month Federal Agency Cost of Funds, monthly simple average of daily rates, quoted as actual/360	Bloomberg Generic 1 Month Agency Discount Note Yield Ticker: AGDN030Y (index)
3 MO Federal Agency COF	Three-month Federal Agency Cost of Funds, monthly simple average of daily rates, quoted as actual/360	Bloomberg Generic 3 Month Agency Discount Note Yield Ticker: AGDN090Y (index)
6 MO Federal Agency COF	Six-month Federal Agency Cost of Funds, monthly simple average of daily rates, quoted as actual/360	Bloomberg Generic 6 Month Agency Discount Note Yield Ticker: AGDN180Y (index)
1 YR Federal Agency COF	One-year Federal Agency Cost of Funds, monthly simple average of daily rates, quoted as actual/360	Bloomberg Generic 12 Month Agency Discount Note Yield Ticker: AGDN360Y (index)
2 YR Federal Agency COF	Two-year Federal Agency Fair Market Yield, monthly simple average of daily rates	Bloomberg Generic 2 Year Agency Fair Market Yield Ticker: CO842Y Index

TABLE 3-18.—INTEREST RATE AND INDEX INPUTS—Continued

Interest Rate Index	Description	Source
3 YR Federal Agency COF	Three-year Federal Agency Fair Market Yield, monthly simple average of daily rates	Bloomberg Generic 3 Year Agency Fair Market Yield Ticker: CO843Y Index
5 YR Federal Agency COF	Five-year Federal Agency Fair Market Yield, monthly simple average of daily rates	Bloomberg Generic 5 Year Agency Fair Market Yield Ticker: CO845Y Index
10 YR Federal Agency COF	Ten-year Federal Agency Fair Market Yield, monthly simple average of daily rates	Bloomberg Generic 10 Year Agency Fair Market Yield Ticker: CO8410Y Index
30 YR Federal Agency COF	Thirty-year Federal Agency Fair Market Yield, monthly simple average of daily rates	Bloomberg Generic 30 Year Agency Fair Market Yield Ticker: CO8430Y Index
15 YR fixed-rate mortgage	FHLMC (Freddie Mac) contract interest rates for 15 YR fixed-rate mortgage commitments, monthly average of FHLMC (Freddie Mac) contract interest rates for 15 YR	Bloomberg FHLMC 15 YR, 10 day commitment rate Ticker: FHC1510 (index)
7-year balloon mortgage rate	Seven-year balloon mortgage, equal to the Conventional Mortgage Rate less 50 basis points	Computed

* * * * *

3.3.1 * * *

[b] The process for determining interest rates is as follows: first, identify the values for the necessary Interest Rates at time zero; second, project the ten-year CMT for each month of the Stress Period as specified in the 1992 Act; third, project the 1-month Treasury yield, the 3-month, 6-month, 1-, 2-, 3-, 5-, and 20-year CMTs; fourth, estimate the 30-year

CMT; fifth, project non-treasury Interest Rates, including the Federal Agency Cost of Funds Index; and sixth, project the Enterprises Cost of Funds Index, which provides borrowing rates for the Enterprises during the Stress Period, by increasing the Agency Cost of Funds Index by 10 basis points for the last 108 months of the Stress Test. Guidance in determining interest rates is available under OFHEO Guideline No. 402,

“Risk Based Capital Process for Capturing and Utilizing Interest Rates Files,” which is available on OFHEO’s web site, <http://www.OFHEO.Gov>.

* * * * *

3.5.3 * * *

[a] * * *

2. * * *

a. * * *

TABLE 3-30.—RATING AGENCIES MAPPINGS TO OFHEO RATINGS CATEGORIES

OFHEO ratings category	AAA	AA	A	BBB	Below BBB and unrated
Standard & Poor’s Long-Term	AAA	AA	A	BBB	Below BBB and Unrated
Fitch Long-Term	AAA	AA	A	BBB	Below BBB and Unrated
Moody’s Long-Term	Aaa	Aa	A	Baa	Below Baa and Unrated
Standard & Poor’s Short-Term	A-1+	A-1	A-2	A-3	SP-3, B or Below and Unrated
	SP-1+	SP-1	SP-2		
Fitch Short-Term	F-1+	F-1	F-2	F-3	B and Below and Unrated
Moody’s Short-Term ¹	Prime-1	Prime-1	Prime-2	Prime-3	Not Prime, SG and Unrated
	MIG1	MIG1	MIG2	MIG3	
	VMIG1	VMIG1	VMIG2	VMIG3	
Fitch Bank Individual Ratings	A	B	C	D	E
		A/B	B/C	C/D	D/E
Moody’s Bank Financial Strength Rating	A	B	C	D	E

¹ Any short-term rating that appears in more than one OFHEO category column is assigned the lower OFHEO rating category.

* * * * *

3.6.3.4.3.1 * * *

[a] * * *

3. * * *

a. Compare mortgage rates for each quarter of the Stress Test and for the eight quarters prior to the start of the stress test (q = -7, -6,...0, 1,...40):

$$b_q = 1 \text{ if } MCON_m + 0.02 \leq MIR_m$$

for all three months in quarter q

(i.e., $m = 3q-2, 3q-1, 3q$),

$$b_q = 0 \text{ otherwise}$$

Note: For this purpose, $MCON_m$ is required for the 24 months (eight quarters) prior to the start of the Stress Test. Also, $MIR_m = MIR_0$ for $m < 0$.

* * * * *

3.6.3.4.3.2. * * *

[a] * * *

1. * * *

TABLE 3-35.—COEFFICIENTS FOR SINGLE FAMILY DEFAULT AND PREPAYMENT EXPLANATORY VARIABLE

Explanatory Variable (V)	30-Year Fixed-Rate Loans		Adjustable-Rate Loans (ARMs)		Other Fixed-Rate Loans	
	Default Weight (β_v)	Prepayment Weight (γ_v)	Default Weight (β_v)	Prepayment Weight (γ_v)	Default Weight (β_v)	Prepayment Weight (γ_v)
$0 \leq A_q \leq 4$	-0.6276	-0.6122	-0.7046	-0.5033	-0.7721	-0.6400
$5 \leq A_q \leq 8$	-0.1676	0.1972	-0.2259	0.1798	-0.2738	0.1721
$9 \leq A_q \leq 12$	-0.05872	0.2668	0.01504	0.2744	-0.09809	0.2317
$13 \leq A_q \leq 16$	0.07447	0.2151	0.2253	0.2473	0.1311	0.1884

TABLE 3-35.—COEFFICIENTS FOR SINGLE FAMILY DEFAULT AND PREPAYMENT EXPLANATORY VARIABLE—Continued

Explanatory Variable (V)	30-Year Fixed-Rate Loans		Adjustable-Rate Loans (ARMs)		Other Fixed-Rate Loans		
	Default Weight (β_v)	Prepayment Weight (γ_v)	Default Weight (β_v)	Prepayment Weight (γ_v)	Default Weight (β_v)	Prepayment Weight (γ_v)	
$17 \leq A_q \leq 20$	0.2395	0.1723	0.3522	0.1421	0.3229	0.1900	
$21 \leq A_q \leq 24$	0.2773	0.2340	0.4369	0.1276	0.3203	0.2356	
$25 \leq A_q \leq 36$	0.2740	0.1646	0.2954	0.1098	0.3005	0.1493	
$37 \leq A_q \leq 48$	0.1908	-0.2318	0.06902	-0.1462	0.2306	-0.2357	
$49 \leq A_q$	-0.2022	-0.4059	-0.4634	-0.4314	-0.1614	-0.2914	
$LTV_{ORIG} \leq 60$	LTV _{ORIG}	-1.150	0.04787	-1.303	0.08871	-1.280	0.02309
$60 < LTV_{ORIG} \leq 70$		-0.1035	-0.03131	-0.1275	-0.005619	-0.06929	-0.02668
$70 < LTV_{ORIG} \leq 75$		0.5969	-0.09885	0.4853	-0.09852	0.6013	-0.05446
$75 < LTV_{ORIG} \leq 80$		0.2237	-0.04071	0.1343	-0.03099	0.2375	-0.03835
$80 < LTV_{ORIG} \leq 90$		0.2000	-0.004698	0.2576	0.004226	0.2421	-0.01433
$90 < LTV_{ORIG}$		0.2329	0.1277	0.5528	0.04220	0.2680	0.1107
$0 < PNEQ_q \leq 0.05$	PNEQ _q	-1.603	0.5910	-1.1961	0.4607	-1.620	0.5483
$0.05 < PNEQ_q \leq 0.1$		-0.5241	0.3696	-0.3816	0.2325	-0.5055	0.3515
$0.1 < PNEQ_q \leq 0.15$		-0.1805	0.2286	-0.1431	0.1276	-0.1249	0.2178
$0.15 < PNEQ_q \leq 0.2$		0.07961	-0.02000	-0.04819	0.03003	0.07964	-0.02137
$0.2 < PNEQ_q \leq 0.25$		0.2553	-0.1658	0.2320	-0.1037	0.2851	-0.1540
$0.25 < PNEQ_q \leq 0.3$		0.5154	-0.2459	0.2630	-0.1829	0.4953	-0.2723
$0.3 < PNEQ_q \leq 0.35$		0.6518	-0.2938	0.5372	-0.2075	0.5979	-0.2714
$0.35 < PNEQ_q$		0.8058	-0.4636	0.7368	-0.3567	0.7923	-0.3986
B_q		1.303	-0.3331	0.8835	-0.2083	1.253	-0.3244
$0 < RLS_{ORIG} \leq 0.4$	RLS	.....	-0.5130	.....	-0.4765	.....	-0.4344
$0.4 < RLS_{ORIG} \leq 0.6$		.....	-0.3264	.....	-0.2970	.....	-0.2852
$0.6 < RLS_{ORIG} \leq 0.75$		.....	-0.1378	.....	-0.1216	.....	-0.1348
$0.75 < RLS_{ORIG} \leq 1.0$		.....	0.03495	.....	0.04045	.....	0.01686
$1.0 < RLS_{ORIG} \leq 1.25$		.....	0.1888	.....	0.1742	.....	0.1597
$1.25 < RLS_{ORIG} \leq 1.5$		.....	0.3136	.....	0.2755	.....	0.2733
$1.5 < RLS_{ORIG}$		.....	0.4399	.....	0.4049	ENT ≤ 0.4045	
IF		0.4133	-0.3084	0.6419	-0.3261	0.4259	-0.3035
$RS_q \leq -0.20$	RS _q	.....	-1.368	.....	-0.5463	.....	-1.195
$-0.20 < RS_q \leq -0.10$		.....	-1.023	.....	-0.4560	.....	-0.9741
$-0.10 < RS_q \leq 0$		.....	-0.8078	.....	-0.4566	.....	-0.7679
$0 < RS_q \leq 0.10$		.....	-0.3296	.....	-0.3024	.....	-0.2783
$0.10 < RS_q \leq 0.20$		.....	0.8045	.....	0.3631	.....	0.7270
$0.20 < RS_q \leq 0.30$		.....	1.346	.....	0.7158	.....	1.229
$0.30 < RS_q$		.....	1.377	.....	0.6824	.....	1.259
$PS_q \leq -0.20$	PS _q	.....	.....	0.08490	0.6613	.....	.....
$-0.20 < PS_q \leq -0.10$		.....	.....	0.3736	0.4370	.....	.....

TABLE 3-35.—COEFFICIENTS FOR SINGLE FAMILY DEFAULT AND PREPAYMENT EXPLANATORY VARIABLE—Continued

Explanatory Variable (V)	30-Year Fixed-Rate Loans		Adjustable-Rate Loans (ARMs)		Other Fixed-Rate Loans	
	Default Weight (β _v)	Prepayment Weight (γ _v)	Default Weight (β _v)	Prepayment Weight (γ _v)	Default Weight (β _v)	Prepayment Weight (γ _v)
-0.10 <PS _q ≤0	.....	.....	0.2816	0.2476	.....	.....
0<PS _q ≤0.10	.....	.....	0.1381	0.1073	.....	.....
0.10 <PS _q ≤0.20	.....	.....	-0.1433	-0.3516	.....	.....
0.20 <PS _q ≤0.30	.....	.....	-0.2869	-0.5649	.....	.....
0.30 <PS _q	.....	.....	-0.4481	-0.5366	.....	.....
YCS _q <1.0	.....	-0.2582	.....	-0.2947	.....	-0.2917
1.0≤YCS _q <1.2	.....	-0.02735	.....	-0.1996	.....	-0.01395
1.2≤YCS _q <1.5	.....	-0.04099	.....	0.03356	.....	-0.03796
1.5≤YCS _q	.....	0.3265	.....	0.4608	.....	0.3436
IREF _q	.....	.....	0.1084	-0.01382	.....	.....
PROD	.....	.....	.....	.....	.....	.....
ARMs	.....	.....	0.8151	0.2453	.....	.....
Balloon Loans	.....	.....	.....	.....	1.253	0.9483
15-Year FRMs	.....	.....	.....	.....	-1.104	0.07990
20-Year FRMs	.....	.....	.....	.....	-0.5834	0.06780
Government Loans	.....	.....	.....	.....	0.9125	-0.5660
LTV _{ORIG} ≤60	2.045	—	2.045	—	2.045	—
60<LTV _{ORIG} ≤70	0.3051	—	0.3051	—	0.3051	—
70<LTV _{ORIG} ≤75	-0.07900	—	-0.07900	—	-0.07900	—
75<LTV _{ORIG} ≤80	-0.05519	—	-0.05519	—	-0.05519	—
80<LTV _{ORIG} ≤90	-0.1838	—	-0.1838	—	-0.1838	—
90<LTV _{ORIG}	0.2913	—	0.2913	—	0.2913	.....
Intercept (β ₀ , γ ₀)	-6.516	-4.033	-6.602	-3.965	-6.513	-3.949

* * * * *

TABLE 3-59.—AGGREGATE ENTERPRISE AMORTIZED ORIGINAL LTV (AOLTV₀) DISTRIBUTION¹

Original LTV	UPB distribution	Wt avg AOLTV for range
00<LTV≤60
60<LTV≤70
70<LTV≤75
75<LTV≤80
80<LTV≤90
90<LTV≤95
95<LTV≤100

TABLE 3-59.—AGGREGATE ENTERPRISE AMORTIZED ORIGINAL LTV (AOLTV₀) DISTRIBUTION¹—Continued

Original LTV	UPB distribution	Wt avg AOLTV for range
100<LTV

¹ Source: RBC Report, combined Enterprise single-family sold loan portfolio. Table 3-59 is updated as necessary with RBC Report combined Enterprise single-family sold loan group data in accordance with OFHEO guideline #404. The contents of the table appear at www.OFHEO.gov.

Note: Amortized Original LTV (also known as the "current-loan-to-original-value" ratio) is the Original LTV adjusted for the change in UPB but not for changes in property value.

* * * * *

3.7.3.1 * * *

[g] * * *

2. Compute:

$$HctAmt_m = (TPR_m + TIR_m) \times HctFac_m$$

* * * * *

3.8.3.6.1 * * *

[e] * * *

TABLE 3-68.—CALCULATION OF MONTHLY CASH FLOWS FOR LONG CAPS AND FLOORS

Instrument	Cash flows
Cap Floor	$(I-K) \times N \times D$ if $I > K$; 0 if $I \leq K$ $(K-I) \times N \times D$ if $I < K$; 0 if $I \geq K$

* * * * *

3.10.3.2. * * *

[a] * * *

2. *Common Stock.* In the first year of the Stress Test, dividends are paid on common stock in each of the four quarters after preferred dividends, if any, are paid unless the Enterprise's capital is, or after the payment, would be, below the estimated minimum capital requirement.

a. *First Quarter.* In the first quarter, the dividend is the dividend per share ratio for common stock from the quarter preceding the Stress Test times the current number of shares of common stock outstanding.

b. *Subsequent Quarters.*

(1) In the three subsequent quarters, if the preceding quarter's after tax income is greater than after tax income in the quarter preceding the Stress Test (adjusted by the ratio of Enterprise retained earnings and retained earnings after adjustments are made that revert investment securities and derivatives to amortized cost), pay the larger of (1) the dividend per share ratio for common stock from the quarter preceding the Stress Test times the current number of shares of common stock outstanding or (2) the average dividend payout ratio for common stock for the four quarters preceding the start of the Stress Test times the preceding quarter's after tax income (adjusted by the reciprocal of the ratio of Enterprise retained earnings and retained earnings after adjustments are made that revert investment securities and derivatives to amortized cost) less preferred dividends paid in the current quarter. In no case may the dividend payment exceed an amount equal to core capital less the estimated minimum capital requirement at the end of the preceding quarter.

(2) If the previous quarter's after tax income is less than or equal to after tax income in the quarter preceding the Stress Test (adjusted by the ratio of Enterprise retained earnings and retained earnings after adjustments are made that revert investment securities and derivatives to amortized cost), pay the lesser of (1) the dividend per share ratio for common stock for the quarter preceding the Stress Test times the current number of shares of common stock outstanding or (2) an amount equal to core capital less the estimated minimum capital requirement at the end of the preceding quarter, but not less than zero.

* * * * *

3.11.3 * * *

[c] OFHEO will provide the Enterprise with its estimate of the capital treatment as soon as possible after receiving notice of the New Activity. In any event, the Enterprise will be notified of the capital treatment in accordance with the notice of proposed capital classification provided for in § 1777.21 of this chapter.

* * * * *

3.12.3 * * *

[a] * * *

9. Subtract the net increase (or add the net decrease) in Retained Earnings related to Fair Value Hedges at the start of the stress test made in accordance with section 3.10.3.6.2 [a] 1. b. of this appendix.

* * * * *

Dated: September 6, 2002.

Armando Falcon, Jr.,
Director, Office of Federal Housing Enterprise Oversight.

[FR Doc. 02-23078 Filed 9-11-02; 8:45 am]

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DEPARTMENT OF COMMERCE

Bureau of Economic Analysis

15 CFR Part 806

[Docket No. 020813189-2189-01]

RIN 0691-AA44

Direct Investment Surveys: BE-12, Benchmark Survey of Foreign Direct Investment in the United States—2002

AGENCY: Bureau of Economic Analysis, Commerce.

ACTION: Notice of proposed rulemaking.

SUMMARY: This notice sets forth a proposed rule to revise the reporting requirements for the BE-12, Benchmark Survey of Foreign Direct Investment in the United States.

The Department of Commerce, as part of its continuing effort to reduce paperwork and respondent burden, invites the general public and other Federal agencies to comment on proposed and/or continuing information collections, as required by the Paperwork Reduction Act of 1995. The BE-12 survey is a mandatory survey and is conducted once every 5 years by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, under the International Investment and Trade in Services Survey Act. The proposed benchmark survey will be conducted for 2002. BEA will send the survey to potential respondents in February 2003; responses will be due by May 31, 2003. The last benchmark survey was conducted for 1997. The benchmark survey covers virtually the entire universe of foreign direct investment in the United States in terms of value, and is BEA's most comprehensive survey of such investment in terms of subject matter.

Changes proposed by BEA in the reporting requirements to be implemented in this proposed rule are: Raising the reporting threshold on the BE-12(SF) short form and the BE-12 Bank form from \$3 million to \$10 million; directing that only nonbank majority-owned U.S. affiliates of foreign companies report on the BE-12(LF) long form; raising the reporting threshold on the BE-12(LF) long form from \$100 million to \$125 million; and directing bank holding companies to file a fully consolidated report, including all nonbank operations, on the BE-12 Bank form. (Previously, the nonbanking operations were reported on a separate BE-12(LF) long form or BE-12(SF) short form.) These changes will reduce respondent burden, especially for small companies and bank holding companies.

DATES: Comments on this proposed rule will receive consideration if submitted in writing on or before November 12, 2002.

ADDRESSES: Direct all written comments to the Office of the Chief, International Investment Division (BE-50), Bureau of Economic Analysis, U.S. Department of Commerce, Washington, DC 20230. Because of slow mail, and to assure that comments are received in a timely manner, please consider using one of the following delivery methods: (1) Fax to (202) 606-5318, (2) deliver by courier to U.S. Department of Commerce, Bureau of Economic Analysis, BE-49(A), Shipping and Receiving, Section M100, 1441 L Street NW., Washington, DC 20005, or (3) e-mail to David.Belli@bea.gov. Comments received will be available for public inspection in Room 7005, 1441 L Street NW., between 8:30 a.m. and 4:30 p.m., eastern time Monday through Friday.

FOR FURTHER INFORMATION CONTACT: R. David Belli, Chief, International Investment Division (BE-50), Bureau of Economic Analysis, U.S. Department of Commerce, Washington, DC 20230; phone 202-606-9800.

SUPPLEMENTARY INFORMATION: This proposed rule amends 15 CFR 806.17 to set forth the reporting requirements for the BE-12, Benchmark Survey of Foreign Direct Investment in the United States—2002. The Bureau of Economic Analysis (BEA), U.S. Department of Commerce, will conduct the survey under the International Investment and Trade in Services Survey Act (22 U.S.C. 3101-3108), hereinafter, "the Act." Section 4(b) of the Act requires that:

"* * * With respect to foreign direct investment in the United States, the President shall conduct a benchmark survey covering year 1980, a benchmark survey covering year 1987, and benchmark surveys covering every fifth year thereafter. In conducting surveys [of U.S. direct investment abroad and foreign direct investment in the United States] pursuant to this subsection, the President shall, among other things and to the extent he determines necessary and feasible—

(1) Identify the location, nature, and magnitude of, and changes in the total investment by any parent in each of its affiliates and the financial transactions between any parent and each of its affiliates;

(2) Obtain (A) information on the balance sheet of parents and affiliates and related financial data, (B) income statements, including the gross sales by primary line of business (with as much product line detail as is necessary and feasible) of parents and affiliates in each