Treasury Financial Manual

Bulletin No. 98-01 **Volume IV**

Retention: September 30, 1998

To: Treasury Tax and Loan Depositaries

Subject: Commercial Loans Are Now Acceptable For Securing Special Direct Investment Balances

1. Purpose

This bulletin amends the list of collateral acceptable to secure balances placed under the Treasury Tax and Loan (TT&L) Special Direct Investment (SDI) program. Commercial loans (also known as commercial notes) are now acceptable to secure SDI balances. This change is made on a pilot basis. The Department of the Treasury will evaluate the results of this policy and may make additional changes.

The following TFM section is revised as attached:

IV TFM 1-2065.80.

2. Background

During periods of significant tax receipts, the Department of the Treasury may exceed the Direct Investment program capacity. When this occurs, the Treasury invests a portion of its operating cash directly into the note balance of SDI program participants. Collateral used to secure SDI investments must be held by the financial institution in an Off-Premises Collateral (OPC) arrangement and be of a type acceptable in the SDI program. To participate in the SDI program, financial institutions must qualify to secure borrowings (advances) from the Federal Reserve Bank's (FRB's) discount window under the FRB's Borrower-in-Custody of Collateral (BIC) program.

Recently, the Bureau of the Public Debt (BPD) was given the regulatory and procedural responsibility to establish acceptable collateral and to determine the collateral valuation for the TT&L program. The BPD is planning to update the list of acceptable collateral later in 1998. The Treasury Financial Manual (TFM) chapters will reflect these updates.

A portion of the current list of acceptable TT&L collateral is authorized for use securing SDIs. To secure SDI balances, the pledging depositary must retain possession of the collateral on its own premises. Several of the types of collateral on the current list of acceptable TT&L collateral are now typically immobilized at third-party custodians (e.g., municipal bonds) or at non-financial institutions (e.g., student loans). Collateral physically located at an FRB, a third-party custodian, or a non-financial institution is unacceptable in the SDI program. For that reason, several types of collateral currently listed as acceptable for TT&L do not typically qualify to secure SDI balances.

The recent migration from depositaries holding collateral in their own vaults, to having them held at a third-party custodian, has resulted in 1-4 family mortgages and insured student loans which are held by depositaries being the only acceptable types of collateral that are typically pledged to secure SDI balances. This bulletin expands the list of collateral that a depositary can pledge to secure SDI balances to include commercial loans.

Pursuant to TFM revisions, Appendices No. 5, "Application Form for Special Direct Investments," and No. 6, "Agreement to Secure Special Direct Investments," to II TFM 3-2000 have been revised. Copies of these revised forms are available from your FRB.

3. Effective Date

Immediately.

4. Inquiries

Questions concerning this bulletin should be directed to:

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Richard L. Gregg

Date: May 21, 1998

Richard L. Gregg
Commissioner

Attachment

ATTACHMENT

IV TFM 1-2065.80 - Collateral for Special Direct Investments

To be acceptable to secure Special Direct Investment (SDI) balances, collateral must be: 1) acceptable by the FRB to secure borrowings from the FRB under its Borrower-in-Custody of Collateral (BIC) program, 2) held by the pledging depositary which retains possession of the collateral on its own premises in an Off-Premises Collateral (OPC) arrangement, and 3) of a type acceptable in the SDI program.

Acceptable types of collateral in the SDI program are: 1-4 family mortgages, commercial loans (also known as commercial notes), and insured student loans (notes representing educational loans insured or guaranteed under a program authorized under Title IV of the Higher Education Act of 1965, as amended, or Title VII of the Public Health Service Act, as amended).

Collateral pledged under OPC arrangements will be valued in accordance with the value applied by the FRB to the same collateral when pledged to secure borrowings from the FRB under its BIC program. Where declining value collateral is pledged, depositaries are required to furnish the FRB at least monthly (or more frequently at the FRB's request) an updated statement showing the revised value of the collateral pledged.

The depositary will hold the OPC collateral available at all times for on-site reviews by the FRB.