



ADVISORY BULLETIN 2006-AB-01

January 25, 2006

***Federal Housing Finance Board
Office of Supervision***

To: Federal Home Loan Bank Chairs, Presidents, Chief Financial Officers, Controllers, Community Investment Officers, and Directors of Internal Audit Managing Director of the Office of Finance

From: Stephen M. Cross
Director
Office of Supervision

Subject: Affordable Housing Program (AHP) and Resolution Funding Corporation (REFCORP) Contributions

Background:

As part of the process of registering their equity securities with the Securities and Exchange Commission (SEC), a number of Federal Home Loan Banks (Banks) must restate their financial statements, going back to 2001 in some cases. Other Banks, while not needing to restate their financial statements, will record a cumulative adjustment to earnings to account for previous accounting errors. A number of Banks have inquired about how these accounting restatements or earnings adjustments will affect their AHP and REFCORP contributions.¹

¹ The Federal Home Loan Bank Act (Act) requires each Bank annually to contribute 10 percent of its earnings to fund its AHP, subject to a minimum aggregate contribution of \$100 million. The Act also requires each Bank annually to contribute 20 percent of its earnings to pay part of the interest on the REFCORP bonds. The REFCORP contribution will continue until the Banks in the aggregate have paid the equivalent of a \$300 million annual annuity that matures on April 15, 2030. By statute, the earnings base for the AHP calculation excludes the REFCORP contribution, and the earnings base for the REFCORP calculation excludes the AHP contribution. Furthermore, for purposes of the AHP calculation, Advisory Bulletin 2005-AB-04, Reporting Issues Resulting from the Adoption of Statement of Financial Accounting Standards No. 150: *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (SFAS 150), directs the Banks to reverse the interest expense associated with the dividends on capital stock subject to a redemption request.

Guidance:

Each Bank must contribute at least 10 percent of earnings after REFCORP to AHP. A Bank will commit its AHP contributions to projects in the following year. A Bank may use contributions in excess of 10 percent of earnings as a credit against required AHP contributions in future years. Similarly, each Bank must contribute at least 20 percent of earnings after AHP to REFCORP. A Bank may use contributions in excess of 20 percent of earnings as a credit against required REFCORP contributions in future years.

A. Banks that are restating their financial statements:

A Bank that is restating its financial statements should simultaneously recalculate its AHP and REFCORP contributions for each year beginning with the first year being restated using the then existing assessment guidelines and rates.

Each Bank should calculate the sum of the restated AHP contributions and compare it with the sum of the previously recorded AHP contributions beginning with the first year being restated through the end of the last calendar year for which the financial statements are being restated. If the sum of recalculated AHP contributions exceeds the sum of previously recorded AHP contributions, then the Bank should increase its AHP expense for the amount of this difference. If the sum of recalculated AHP contributions is less than the sum of previously recorded contributions, then the Bank may credit the excess contributions against required contributions in future periods.

Each Bank should calculate the sum of the restated REFCORP contributions and compare it with the sum of the previously recorded REFCORP contributions beginning with the first year being restated through the end of the last calendar year for which the financial statements are being restated. If the sum of recalculated REFCORP contributions exceeds the sum of previously recorded REFCORP contributions, then the Bank should increase its REFCORP expense for the amount of this difference, and such amount should be paid in the Bank's next quarterly contribution. If the sum of recalculated REFCORP contributions is less than the sum of previously recorded contributions, then the Bank may credit the excess contributions against required contributions in future periods.

For Generally Accepted Accounting Principles (GAAP) financial reporting purposes, restating Banks may treat the first year's AHP and REFCORP over/under payments as deferred assets/liabilities based on the restated income amounts. As each subsequent year's income is adjusted, the Banks may add to or use the deferred accounts until the final restatement reporting period is reached. Subsequent to the final restatement reporting period, the Bank may carryover any unused AHP or REFCORP deferred amounts to be used in the current or subsequent period(s).

B. Banks that are not restating their financial statements:

A Bank that is not restating its financial statements should record the cumulative adjustment to earnings and calculate AHP and REFCORP simultaneously using the earnings base that includes this cumulative adjustment. If, as a result of the calculation, a Bank has already accrued more than its required annual AHP and REFCORP contributions, then it may credit the excess contributions against required contributions in future periods.

Disclosures:

Each Bank affected by this Advisory Bulletin should make appropriate disclosures in its financial report.

Principal Finance Board Contacts:

R. Patrick Lagos, Senior Accountant, 202-408-2563, lagosr@fhfb.gov.

Charles E. McLean, Associate Director, Community Investment and Affordable Housing, 202-408-2537, mcleanc@fhfb.gov.

Joseph A. McKenzie, Deputy Chief Economist, 202-408-2845, mckenziej@fhfb.gov.

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