BULLETIN NO. 98-02

Retention: September 30, 1998

TO: FEDERAL RESERVE BANKS AND BRANCHES

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 to ensure that Note and Direct Investment program capacity is not adversely affected by allowing collateral currently acceptable only for the Note and Direct Investment programs to be maintained as Off-Premises Collateral (OPC) to secure SDI program funds.

The following TFM provisions are revised as attached:

1. II TFM 3-2050.30.
2. Appendices No. 5 and No. 6 to II TFM 3-2000.
3. II TFM 3-5040.

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 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 revisions described herein, Attachment 2 provides the amended Appendices No. 5, "Application Form for Special Direct Investments," and No. 6, "Agreement to Secure Special Direct Investments," to II TFM 3-2000.

3. EFFECTIVE DATE

Immediately.

4. INQUIRIES

Questions concerning this bulletin generally should be directed to:

Financial Services Division
Financial Management Service
Department of the Treasury
Liberty Center, Room 313
401 14th Street, SW.
Washington, DC 20227
Telephone: (202) 874-6580

Questions concerning the types and valuation of acceptable collateral should be directed to:

Government Securities Regulations Staff
Bureau of the Public Debt
Department of the Treasury
999 E Street, NW.
Washington, DC 20239-0001
Telephone: 202-219-3632

Date: May 21, 1998

Richard L. Gregg
Commissioner

Attachments

(See PDF Version for attachments)