FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-197
October 19, 1981

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

All Savers Certificates

TO ALL MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

In an attempt to aid depository institutions in dealing with the All Savers Certificates, the Depository Institutions Deregulation Committee (DIDC) has prepared a list of questions and answers about the treatment and timing of qualified financing required by depository institutions. The Committee has included the list of questions and answers in the enclosed press release dated October 8, 1981.

Questions concerning the All Savers Certificates should be directed to this Bank's Legal Department, Ext. 6171.

Additional copies of this circular will be furnished upon request to the Department of Communications, Financial and Community Affairs of this Bank, Ext. 6289.

Sincerely yours,

William H. Wallace

William H. Wallace
First Vice President

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE
Washington, D.C. 20220

PRESS RELEASE

October 8, 1981

All Savers Certificates -- Qualified Investment Requirement
Questions and Answers

Additional questions and answers about the treatment and timing of qualified financing required of depository institutions issuing All Savers Certificates are attached. They cover the following issues:

1. October-December 1981 investment of qualified net savings and ASC proceeds.

2. Carry-over of excess qualified investment.

3. Sales of qualified investment assets.

4. Alternatives to using an asset base in determining satisfaction of the investment requirement.

For further information please contact:

Mr. David Ansell Office of the Comptroller of the Currency	202-447-1880
Mr. F. Douglas Birdzell Federal Deposit Insurance Corporation	202-389-4261
Ms. Rebecca Laird Federal Home Loan Bank Board	202-377-6446
Mr. Daniel Rhoades Federal Reseve Board	202-452-3711
Mr. Robert Fenner National Credit Union Administration	202-357-1030
Ms. Elaine Boutilier Mr. Allan Schott Department of the Treasury	202-566-8737 202-566-6798
Mr. Robert Levine DIDC Press Officer	202-566-5158
ASC and other rate information	202-566-3734

Attachment: Questions and Answers

Qualified Investment Requirement

Questions and Answers

1. Q. May loans and investments made during the period of October 1, 1981 through December 31, 1981 that qualify under Internal Revenue Code § 128(d)(3) be used to meet the qualified residential financing test for the quarter ending March 31, 1982?

   A. Yes. The DIDC states that qualified investments must be made by the close of the quarter. The statute states in one place that qualified investments must be made during the succeeding quarter and in another place that qualified investments must be made as of the close of the quarter. In light of this inconsistency, the legislative history has been reviewed. The Conference Report states that the requirement is to be met by the end of the quarter and the legislative history generally indicates an intent of Congress to stimulate housing loans. Since there appears to be no good reason to require a delay in making the investments that Congress considered desirable, the staff's interpretation of the statute, as embodied in the DIDC rule, is that investments may be made during the fourth quarter of 1981 to meet the qualified residential financing requirement by the end of the first quarter of 1982.

2. Q. If a depository institution extends qualified residential financing during one quarter in 1982 in an amount in excess of the minimum amount required to be extended during that quarter to enable the institution to continue offering ASCs, may the excess be carried forward to the next quarter?

   A. Yes. The DIDC rule states that investments must be made by the close of the quarter. An excess qualified investment in one quarter may be carried over to the subsequent quarter; however, there must be clear documentation of the investment used to qualify for each quarter. Further, no loan used to qualify in one quarter may be used again to qualify in a subsequent quarter.

   The staff is aware that this answer represents a change in position. In response to the same question in the September 21st Q & A release, the response was that excess loans could not be carried over. Upon reconsideration, particularly in light of the preceding question, the staff has agreed to change this response.

3. Q. Do the sales of loans originated by the institution that are secured by liens on single- or multi-family housing, home improvement loans, guaranteed or insured residential loans, mobile home loans, residential construction loans, or agricultural loans have to be offset by new originations or purchases of such assets in determining the amount of an institution's qualified residential financing under Internal Revenue Code § 128 (d)(3)?

   A. No. Sales of assets described in Section 128 (d)(3)(A), (B), (C), (D), (E) and (H) do not have to be made up. The loan is counted when made and it may be sold the next day or at any time without reducing the amount of qualified residential financing. The explanatory material at pp. 7 and 8 of the DIDC Federal Register document and DIDC regulation § 1204.116 (c)(3)(B) should be read to mean that only sales of qualifying assets purchased in secondary market transactions must be made up.

4. Q. Does the explanatory material on pp. 7 and 8 of the DIDC Federal Register document containing All Savers Certificate rules require the use of a base of qualified assets against which to measure whether the requisite amount of qualified residential financing has been met?

   A. No. The example was provided to illustrate one method of calculating the qualified residential financing requirement. An institution would not need to use a base; instead it might demonstrate that it had met the requirement by keeping copies of dated loan closing documents and purchase agreements indicating that the requisite amount of investment had been met by the close of the quarter. Thus, institutions may choose whether to use a base as illustrated in the example or to meet the test by demonstrating the requisite amount of qualified investment.