



FEDERAL RESERVE BANK
OF DALLAS

HELEN E. HOLCOMB
FIRST VICE PRESIDENT AND
CHIEF OPERATING OFFICER

DALLAS, TEXAS
75265-5906

August 20, 1998

Notice 98-75

TO: The Chief Operating Officer of each
financial institution and others concerned
in the Eleventh Federal Reserve District

SUBJECT

**New Methodology for
Determining Collateral Value of Assets**

DETAILS

In September 1998, the Federal Reserve System and the U.S. Treasury will implement changes to the methodology for determining the collateral value of assets that are pledged to secure certain funds held by, or loaned to, depository institutions. Under the new methodology, collateral values will be based on either the available market prices to which margins will be applied, or where market prices are not available, margins will be applied to the par or outstanding principal balance.

This new methodology will be used for all book-entry and definitive collateral held by this Reserve Bank. It applies to all collateral pledged to the Federal Reserve System and the U.S. Treasury for the following purposes:

- Treasury Tax and Loan
- Discount Window
- Payment System Risk

Historically, credit quality has been the primary factor in determining both acceptability of the collateral to Reserve Banks and the margins applied to the outstanding principal. Beginning this fall, collateral values will be based either on an actual market price adjusted by a margin to account for risks between repricing periods or on the outstanding principal balance adjusted by a margin to account for various characteristics associated with a particular asset. Collateral values may be more or less than the face or par value of the asset.

Instruments for which market prices are not available will be assigned collateral value based on a valuation system developed by the Federal Reserve Banks. Various aspects of the instrument will be assessed, including credit quality, interest rate, maturity date, liquidity, and

For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

current rate environment. Based on this assessment, a "haircut" will be applied to the outstanding principal to determine the collateral value.

The revised collateral valuation practice is scheduled to be implemented for all book-entry and definitive collateral simultaneously beginning September 21, 1998. Market prices for securities and other obligations will be obtained from one or more securities pricing services. Prices are scheduled to be refreshed at least weekly.

We are currently in the process of determining the impact of the revised methodology on your institution's collateral portfolio. Within the next several weeks, you will be contacted should the change to your institution's collateral value adversely affect your institution's ability to fully collateralize its Treasury, Tax, and Loan deposits or your ability to borrow from the Reserve Bank.

MORE INFORMATION

If you have any questions, please contact the appropriate program representative listed below.

Treasury Tax and Loan	Janie Worley	(214) 922-6761
Discount Window	Finlay Higgins	(214) 922-5335
Payment System Risk	Paul Elzner	(214) 922-5590

If you need additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,

