FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8713
December 20, 1979]

New Supervisory Policy Regarding
Participation in Government Guaranteed Loan Programs

To All State Member Banks, and Others Concerned,
in the Second Federal Reserve District:

The Board of Governors of the Federal Reserve System has approved a new supervisory policy regarding the purchase and sale by State member banks of Government guaranteed loans. The following is quoted from the Board's announcement of its action:

> The policy adopted by the Board—which had been recommended to Federal agencies regulating financial institutions by the Federal Financial Institutions Examination Council—concerns participation in Government guaranteed loan programs that:
>
> 1. Provide lenders a partial guarantee of principal and interest, and
> 2. Allow for separate sale of guaranteed portions of loans to third parties.
>
> Participating institutions may be originators, sellers, servicers or purchasers of such guaranteed loans.
>
> Adoption of the supervisory policy by all the Federal financial institutions regulators is intended to help achieve uniform and effective supervision of participating financial institutions.
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> The policy addresses three major areas of supervisory concern: portfolio management, accounting for fee income and asset liquidity.

Printed on the reverse side of this circular is the statement of policy adopted by the Board. Questions on this policy may be directed to our Bank Examinations Department (Tel. No. 212-791-5898).

THOMAS M. TIMLEN,
First Vice President.

(OVER)

Supervisory Policy

Originating and selling institutions

- Examiners should review the extent and nature of activities in connection with the sale of government guaranteed loans. Lax or improper management of the selling institution's servicing responsibilities should be criticized. Out-of-trade area lending for the purpose of resale of any portion of U. S. government guaranteed loans should be carefully reviewed to insure that the practice is conducted in a safe and sound manner.

- All income, including servicing fees and premiums charged in lieu of servicing fees, associated with the sale of U. S. government guaranteed loans, should be recognized only as earned and amortized to appropriate income accounts over the life of the loan.

Purchasing Institutions

- Recognizing that investments in the guaranteed portions of U. S. government guaranteed loans currently have no formal secondary market which establishes a uniform pricing structure and that, therefore, these investments are somewhat less marketable than investments that do have such a market, the agencies take the following positions to assure against institution over-reliance on such investments to maintain adequate levels of liquidity:

  A. Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency

  Guaranteed portions of U. S. government guaranteed loans should not be recorded or carried as U. S. Government or Federal agency securities and should not be substituted for U. S. Government or Federal agency securities in regulatory formulas or procedures designed to monitor liquidity.

  B. Federal Home Loan Bank Board

  Pursuant to Federal Home Loan Bank System Regulations, Section 523.10, the guaranteed portions of U. S. government guaranteed loans do not qualify as liquid assets.

  C. National Credit Union Administration

  Pursuant to Part 742 of the NCUA Rules and Regulations and Section 107(7) of the Federal Credit Union Act, the guaranteed portions of U. S. government guaranteed loans do not qualify as liquid assets except to the extent that any such investments have a remaining maturity of only one year or less.