approval before paying their directors more than the generally applicable

**EFFECTIVE DATE:** This regulation will become effective 30 days after publication in the Federal Register during which either or both houses of Congress are in session. We will publish a notice of the effective date in the Federal Register.

FOR FURTHER INFORMATION CONTACT:

Alan Markowitz, Senior Policy Analyst, Office of Policy and Analysis, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4479; or Rebecca S. Orlich, Senior Attorney, Office of General Counsel, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4020, TDD (703) 883-4444.

SUPPLEMENTARY INFORMATION: We adopt these amendments without change from the proposed rule (63 FR 49305, September 15, 1998), as part of our continuing efforts to reduce the burden of regulatory compliance. We amend § 611.400 to remove the requirement for System banks to obtain our prior approval before paying director compensation in excess of the generally applicable limit. Section 4.21(a) of the Farm Credit Act of 1971, as amended (Act), provides for the maximum amount of annual compensation that System banks may ordinarily pay to directors. Section 4.21(b) authorizes us to waive this limitation under exceptional circumstances. The amended rule provides that:

- Banks may pay a director more than the maximum amount when a director has spent extraordinary time and effort on bank business in exceptional circumstances.
- The additional compensation may not exceed 30 percent of the annual limit
- Each bank must have a written policy describing any exceptional circumstances under which the board will pay additional compensation.
- Banks must document the exceptional circumstances for each case in which additional amounts are paid.

We also make a conforming amendment to § 620.5(i)(1), regarding disclosure of additional compensation in the annual report to shareholders.

We received comments on the proposed rule from the Farm Credit Council on behalf of its member banks; Western Farm Credit Bank; AgAmerica, FCB; and CoBank, ACB (CoBank). All commenters agreed with us that elimination of our prior approval reduces regulatory burden while preserving the requirement that banks pay additional compensation only in exceptional circumstances. The

following excerpt from CoBank's comment was typical of the comments we received. "Since FCA can and will effectively monitor the payment of director compensation through the examination process, CoBank believes it is both fair and achievable to allow the Banks to make additional compensation determinations based on exceptional circumstances and the documentation to support such compensation."

#### List of Subjects

12 CFR Part 611

Agriculture, Banks, banking, Rural areas.

12 CFR Part 620

Accounting, Agriculture, Banks, banking, Reporting and recordkeeping requirements, Rural areas.

For the reasons stated above, parts 611 and 620 of chapter VI, title 12 of the Code of Federal Regulations are amended to read as follows:

#### **PART 611—ORGANIZATION**

1. The authority citation for part 611 continues to read as follows:

Authority: Secs. 1.3, 1.13, 2.0, 2.10, 3.0, 3.21, 4.12, 4.15, 4.20, 4.21, 5.9, 5.10, 5.17, 7.0-7.13, 8.5(e) of the Farm Credit Act (12 U.S.C. 2011, 2021, 2071, 2091, 2121, 2142, 2183, 2203, 2208, 2209, 2243, 2244, 2252, 2279a-2279f-1, 2279aa-5(e)); secs. 411 and 412 of Pub. L. 100-233, 101 Stat. 1568, 1638; secs. 409 and 414 of Pub. L. 100-399, 102 Stat. 989, 1003, and 1004.

#### Subpart D—Rules for Compensation of **Board Members**

2. Section 611.400 is amended by revising paragraphs (c) and (d)(3) to read as follows:

#### §611.400 Compensation of bank board members.

(c)(1) A Farm Credit bank is authorized to pay a director up to 30 percent more than the statutory compensation limit in exceptional circumstances where the director contributes extraordinary time and effort in the service of the bank and its shareholders.

(2) Banks must document the exceptional circumstances justifying additional director compensation. The documentation must describe:

(i) The exceptional circumstances justifying the additional director compensation, including the extraordinary time and effort the director devoted to bank business; and

(ii) The amount and the terms and conditions of the additional director compensation.

(3) The exceptional circumstances under which the board would pay

additional compensation for any of its directors as authorized by paragraph (c) of this section.

PART 620—DISCLOSURE TO **SHAREHOLDERS** 

3. The authority citation for part 620 continues to read as follows:

Authority: Secs. 5.17, 5.19, 8.11 of the Farm Credit Act (12 U.S.C. 2252, 2254, 2279aa-11); sec. 424 of Pub. L. 100-233, 101 Stat. 1568, 1656.

#### Subpart B—Annual Report to **Shareholders**

#### § 620.5 [Amended]

4. Section 620.5(i)(1) is amended by removing the words "under which a waiver of section 4.21 of the Act was granted by the FCA" and adding in their place the words "justifying the additional director compensation as authorized by § 611.400(c)(1) of this chapter" in the second sentence.

Dated: March 30, 1999.

#### Vivian L. Portis.

Secretary, Farm Credit Administration Board. [FR Doc. 99-8310 Filed 4-5-99; 8:45 am]

BILLING CODE 6705-01-P

# FEDERAL HOUSING FINANCE BOARD

12 CFR Part 935

[No. 99-20]

RIN 3069-AA77

#### Collateral Eligible To Secure Federal **Home Loan Bank Advances**

**AGENCY:** Federal Housing Finance Board.

**ACTION:** Final rule.

**SUMMARY:** The Federal Housing Finance Board (Finance Board) is amending its regulation governing eligible collateral for Federal Home Loan Bank (FHLBank) advances to clarify that certain assets, including the insured or guaranteed portions of federally-insured or guaranteed loans and securities representing an equity interest in eligible collateral, qualify as eligible collateral to secure FHLBank advances. The final rule also amends the Finance Board's regulation on collateral verification to eliminate certain ambiguities therein.

DATES: This final rule is effective on April 15, 1999.

FOR FURTHER INFORMATION CONTACT: Eric M. Raudenbush, Attorney-Advisor,

Office of General Counsel, (202) 408–2932, Federal Housing Finance Board, 1777 F Street, NW., Washington, DC 20006, or by electronic mail at raudenbushe@fhfb.gov.

#### SUPPLEMENTARY INFORMATION:

#### I. The Proposed Rule

On December 8, 1998, the Finance Board published for comment a proposed rule to amend its Advances Regulation, 12 CFR part 935, primarily in order to codify in the Regulation provisions governing various collateral arrangements that have been the subject of regulatory interpretations and requests for such interpretations from the FHLBanks and their members. See 63 FR 67625 (Dec. 8, 1998). The sixty day public comment period closed on February 8, 1999. The Finance Board received a total of forty comments: eleven from FHLBanks, seventeen from FHLBank members, five from trade associations, two from members of Congress, and one each from an investment broker/dealer serving FHLBank members, an accounting firm, a state governor and a non-member corporate credit union. Only the nonmember corporate credit union opposed the rule generally.

Section 10(a) of the Federal Home Loan Bank Act (Bank Act) enumerates four categories of collateral that are eligible to secure FHLBank advances: (1) Current whole first mortgage loans on improved residential property and securities representing a whole interest in such mortgages; (2) securities that are issued, guaranteed, or insured by the United States Government, or any agency thereof; (3) deposits of a FHLBank; and (4) other real-estate related collateral in a total amount not to exceed 30 percent of the borrowing member's capital. See 12 U.S.C. 1430(a). The Advances Regulation implements and clarifies the statutory requirements of section 10 of the Bank Act that relate to the security interests that a FHLBank must obtain and maintain when making advances to member institutions. Among the issues that the Regulation addresses are: the types and amounts of collateral that a FHLBank may or must accept when making advances; the priority of FHLBank claims to such collateral in relation to other creditors; and requirements regarding the valuation and verification of the existence of pledged collateral. See 12 CFR 935.9-12.

In response to numerous requests from both FHLBanks and their members to clarify or interpret these collateral provisions in the context of specific transactions, the Finance Board proposed to amend § 935.9 to make

explicit in the Regulation that the FHLBanks may accept as collateral to secure advances to members: (1) the insured or guaranteed portions of federally-insured or guaranteed loans, regardless of delinquency status; (2) securities representing an equity interest in eligible collateral; and (3) eligible mortgage or government securities collateral held by members' whollyowned investment subsidiaries, under the conditions set forth in the proposed rule. In addition, the Finance Board proposed to amend § 935.11(b) of the Advances Regulation, governing collateral verification, to eliminate an ambiguous reference therein to standards established by the Auditing Standards Board of the American **Institute of Certified Public Accountants** (AICPA).

#### II. Comments on the Proposed Rule and Analysis of Changes Made in the Final Rule

A. Eligible Collateral Pledged by a Qualifying Investment Subsidiary

The proposed rule would have amended § 935.1 of the Advances Regulation to include a definition of the term "Qualifying Investment Subsidiary" (QIS), which was to include business entities that: (1) Are wholly owned by a member; (2) are operated solely as passive investment vehicles on behalf of that member; and (3) hold only cash equivalents and assets that are eligible collateral under §§ 935.9(a)(1) and (2) of the Advances Regulation. In turn, the proposed rule would have created a new § 935.9(b) under which the FHLBanks would have been expressly permitted to accept pledges of eligible collateral from a member's QIS to secure advances to that member where the FHLBank was able to obtain and maintain a security interest in the collateral pursuant to which its rights and privileges were functionally equivalent to those that the FHLBank would possess if the member were to pledge the collateral directly.

These proposed provisions were intended primarily to address requests from FHLBanks to accept as security for advances to members eligible collateral held by Real Estate Investment Trust and state security corporation subsidiaries. However, a large number of commenters questioned the Finance Board's proposal to address only pledges of collateral from a narrow class of wholly-owned subsidiaries, while ignoring collateral arrangements with other types of affiliates that may be permissible under the Bank Act. In light of these comments, the Finance Board has decided to remove these QIS

provisions from the text of the final rule pending further analysis of the issue. It is anticipated that, in the near future, the Finance Board will either finalize the QIS provisions separately in a modified form, or will issue a new proposed rule that addresses in a more comprehensive fashion pledges of collateral from members' affiliates.

#### B. Equity Interests in Eligible Collateral

Section 935.9(a)(1)(iii) of the proposed rule expressly authorized FHLBanks to accept as collateral for advances to members any security the ownership of which represents an undivided equity interest in whole mortgages or mortgage-backed securities (MBS), all of which qualify as eligible collateral under § 935.9(a)(1). Similarly, § 935.9(a)(2)(ii) of the proposed rule expressly authorized FHLBanks to accept as collateral any security the ownership of which represents an undivided equity interest in underlying assets, all of which qualify as eligible government securities collateral under § 935.9(a)(2). These provisions were intended to permit FHLBanks to accept as collateral shares of mutual funds and similar equity investments where the underlying assets of the fund comprise only eligible collateral.

Seven commenters (two FHLBanks, two members, two trade associations and the investment broker/dealer) expressly supported, and no commenters expressly opposed, these provisions. However, the two FHLBanks opposed the proposed rule's requirement that the underlying assets of the fund consist only of eligible collateral. Noting that it is likely that, for liquidity purposes, such funds may hold a small percentage of assets that do not qualify as eligible collateral, one FHLBank suggested that the FHLBanks be authorized to accept shares of funds where at least 90 percent of the underlying assets are eligible collateral. The other FHLBank suggested that FHLBanks be permitted to lend against the pro-rata share of the underlying assets that do qualify as eligible collateral. In the final rule, the Finance Board has combined the material contained in proposed §§ 935.9(a)(1)(iii) and (a)(2)(ii) into a new § 935.9(a)(5), under which the FHLBanks are permitted to accept shares of mutual funds and similar investments that represent an undivided equity interest in underlying assets that qualify as eligible collateral under either § 935.9(a)(1) or (a)(2). This change makes clear that FHLBanks may accept shares of funds that hold a combination of eligible mortgage assets and eligible government securities, in addition to

those that hold either one or the other type of eligible collateral. In addition, new § 935.9(a)(5) makes clear that such funds may also hold cash or cash equivalents without losing their eligibility as collateral for advances. Because of the complexities of monitoring the fluctuating asset pools of mutual funds and similar investments, the Finance Board has determined that it will not, at this time, permit FHLBanks to accept under new § 935.9(a)(5) shares of funds that hold any assets that are neither eligible collateral under  $\S\S 935.9(a)(1)$  or (a)(2), nor cash or cash equivalents. Depending on the mix of the underlying assets, however, shares of such funds may constitute eligible collateral under § 935.9(a)(4).

#### C. Government Securities

In the proposed rule, the Finance Board proposed to redesignate the existing text of § 935.9(a)(2) of the Advances Regulation as § 935.9(a)(2)(i)(A) and to add: a new paragraph (i)(B) to make clear that FHLBanks may accept, as eligible government securities collateral, mortgages or other loans, regardless of delinquency status, to the extent that the repayment of the principal and/or interest on such mortgages or loans is backed by the United States Government or any of its agencies; and a new paragraph (i)(C) to make clear that FHLBanks may also accept as eligible collateral securities that are backed by or represent equity interests in, pools of loans or mortgages that are insured or guaranteed by the United States Government or its agencies (to the extent of such insurance or guarantee), even if the investment instrument itself is not so insured or guaranteed. Proposed §§ 935.9(a)(2)(i)(B) and (C) have been redesignated in the final rule as §§ 935.9(a)(2)(ii) and (iii), respectively.

Nineteen commenters (nine members, four trade associations, three FHLBanks, two members of Congress and one state governor) expressly supported these changes and one commenter (the nonmember corporate credit union) expressly opposed them. Several commenters noted specifically that, in the risk-based capital provisions of their respective regulations, the federal financial institution regulatory agencies recognize that individual loans that are insured or guaranteed by the United States Government possess risk equal to that of government-insured or guaranteed securities representing interests in pools of loans.

A significant number of commenters requested that the Finance Board make

clear in the preamble to the final rule that Sallie Mae student loans reinsured by the U.S. Department of Education (DOE) and certificates backed by pools of such loans will be considered to be eligible collateral pursuant to the new provisions. The Finance Board understands that, with respect to at least some Sallie Mae loans made under the Federal Family Education Loan Program (FFELP), the holder of the loan benefits directly only from the guarantee of a Guarantee Agency that is not part of the federal government. While a Guarantee Agency may have a legal right to be reimbursed by the DOE for a portion of guarantee payments made to holders of defaulted student loans, the holders of these loans do not, in most circumstances, have any right to reimbursement from the federal government. Without concluding that Sallie Mae loans may never be considered to be "government securities," the Finance Board has determined that, where a member holding a loan is not the direct beneficiary of insurance or a guarantee payable by the United States or its agencies, such loans will not be considered to be eligible government securities collateral under section 10(a)(2) of the Bank Act. Accordingly, the text of final § 935.9(a)(2)(ii) has been revised to reflect this requirement.

Many commenters responded favorably to the statement in the preamble to the proposed rule that, pursuant to the new provisions, the guaranteed portions of small business loans guaranteed by the Small Business Administration (SBA) could be accepted as government securities collateral under § 935.9(a)(2). Since the publication of the proposed rule, the Finance Board has learned that, under SBA regulations, holders of SBA guaranteed loans made under the SBA's 7(a) Program may not use the guaranteed portions of these loans as collateral for any borrowing without the prior written consent of the SBA, which will be granted only if certain conditions are met. See 13 CFR 120.420. While the Finance Board continues to consider the guaranteed portions of SBA loans to be eligible collateral under § 935.9(a)(2)(ii) of the final rule, it is the responsibility of the FHLBank and its borrowing member to ensure that these and any other statutory and regulatory requirements pertaining to the pledging of government-insured or guaranteed loans are met at the time such assets are taken as collateral. The Finance Board has no authority to interpret, waive, or enforce the regulations of other federal agencies and has not undertaken a

comprehensive survey of statutory and regulatory requirements that may apply to government-insured or guaranteed loans that may be accepted as collateral under new §§ 935.9(a)(2)(ii) and (iii).

The one commenter that opposed the adoption of the new government securities provisions argued that, by permitting FHLBanks to accept, in addition to mortgages, "other loans" insured or guaranteed by the United States or its agencies, the Finance Board is permitting the FHLBanks to stray from their housing finance mission. In fact, section 10(a)(2) of the Bank Actwhich is the source of statutory authority for § 935.9(a)(2) of the regulations-does not require that government securities be mortgagerelated to be eligible as collateral for FHLBank advances. See 12 U.S.C. 1430(a)(2).

#### D. Collateral Verification

Finally, in the proposed rule, the Finance Board proposed to amend § 935.11(b) of the Advances Regulation, governing the verification of the existence of collateral, to remove therefrom a requirement that each FHLBank establish written collateral verification procedures containing standards similar to those established by the AICPA. Three commenters (two FHLBanks and one member) expressly supported the amendment. Two commenters (one member and the AICPA), while not objecting generally to revising § 935.11(b), stated that any amendment should more clearly set forth objectively measurable expectations regarding collateral

The intent behind the proposed amendment is to direct the FHLBanks to maintain appropriate collateral verification standards and processes and to give the Finance Board examination staff the flexibility to assess the adequacy of specific standards and procedures adopted by each FHLBank. Although, in the course of such a review, examiners would normally look for consistency with generally accepted standards, such as those established by the AICPA, to mandate particular standards in the rule would eliminate the flexibility that the Finance Board has determined is necessary in carrying out these examinations. Accordingly, this amendment remains unchanged in the final rule.

#### III. Regulatory Flexibility Act

The final rule applies only to the FHLBanks, which do not come within the meaning of "small business," as defined in the Regulatory Flexibility Act (RFA). See 5 U.S.C. 601(6). Therefore, in

accordance with section 605(b) of the RFA, 5 U.S.C. 605(b), the Finance Board hereby certifies that this proposed rule, if promulgated as a final rule, will not have a significant economic impact on a substantial number of small entities.

#### List of Subjects in 12 CFR Part 935

Credit, Federal home loan banks, Reporting and recordkeeping requirements.

Accordingly, the Finance Board amends 12 CFR part 935 as follows:

#### **PART 935—ADVANCES**

1. The authority citation for part 935 is revised to read as follows:

**Authority:** 12 U.S.C. 1422a(a)(3), 1422b(a)(1), 1426, 1429, 1430, 1430b and 1431.

#### Subpart A—Advances to Members

2. Amend § 935.1 by revising the definition of "Mortgage-backed security" to read as follows:

#### § 935.1 Definitions.

\* \* \*

Mortgage-backed security means:

(1) An equity security representing an ownership interest in:

(i) Fully disbursed, whole first mortgage loans on improved residential real property; or

(ii) Mortgage pass-through or participation securities which are themselves backed entirely by fully disbursed, whole first mortgage loans on improved residential real property; or

(2) An obligation, bond, or other debt security backed entirely by the assets described in paragraph (1)(i) or (ii) of this definition.

3. Amend § 935.9 as follows:

a. Add to the headings of paragraphs (b), (c) and (e) the word "advances" preceding the word "collateral";

b. Revise paragraph (a) as follows:

### § 935.9 Collateral.

(a) Eligible security for advances. At the time of origination or renewal of an advance, each Bank shall obtain, and thereafter maintain, a security interest in collateral that meets the requirements of one or more of the following categories:

(1) Mortgage loans and privately issued securities. (i) Fully disbursed, whole first mortgage loans on improved residential real property not more than

90 days delinquent; or

(ii) Privately issued mortgage-backed securities, excluding the following:

(A) Securities that represent a share of only the interest payments or only the principal payments from the underlying mortgage loans;

- (B) Securities that represent a subordinate interest in the cash flows from the underlying mortgage loans;
- (C) Securities that represent an interest in any residual payments from the underlying pool of mortgage loans; or
- (D) Such other high-risk securities as the Board in its discretion may determine
- (2) Agency securities. Securities issued, insured or guaranteed by the United States Government, or any agency thereof, including without limitation:
- (i) Mortgage-backed securities, as defined in § 935.1 of this part, issued or guaranteed by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, or any other agency of the United States Government;
- (ii) Mortgages or other loans, regardless of delinquency status, to the extent that the mortgage or loan is insured or guaranteed by the United States or any agency thereof, or otherwise is backed by the full faith and credit of the United States, and such insurance, guarantee or other backing is for the direct benefit of the holder of the mortgage or loan; and

(iii) Securities backed by, or representing an equity interest in, mortgages or other loans referred to in paragraph (a)(2)(ii) of this section.

(3) Deposits. Deposits in a Bank.

- (4) Other collateral. (i) Except as provided in paragraph (a)(4)(iii) of this section, other real estate-related collateral acceptable to the Bank if:
- (A) Such collateral has a readily ascertainable value; and
- (B) The Bank can perfect a security interest in such collateral.
- (ii) Eligible other real estate-related collateral may include, but is not limited to:
- (A) Privately issued mortgage-backed securities not otherwise eligible under paragraph (a)(1)(ii) of this section;

(B) Second mortgage loans, including home equity loans;

- (C) Commercial real estate loans; and (D) Mortgage loan participations.
- (iii) A Bank shall not permit the aggregate amount of outstanding advances to any one member, secured by such other real estate-related collateral, to exceed 30 percent of such member's capital, as calculated according to GAAP, at the time the

advance is issued or renewed.

(5) Securities representing equity interests in eligible advances collateral. Any security the ownership of which represents an undivided equity interest in underlying assets, all of which qualify either as:

- (i) Eligible collateral under paragraphs (a)(1) or (2) of this section; or
  - (ii) Cash or cash equivalents.

4. Amend § 935.11 by revising paragraph (b) to read as follows:

## $\S 935.11$ Pledged collateral; verification.

(b) Collateral verification. Each Bank shall establish written procedures and standards for verifying the existence of collateral securing the Bank's advances, and shall regularly verify the existence of the collateral securing its advances in accordance with such procedures and standards.

Dated: March 19, 1999.

By the Board of Directors of the Federal Housing Finance Board.

#### Bruce A. Morrison,

Chairman.

[FR Doc. 99–8356 Filed 4–5–99; 8:45 am] BILLING CODE 6725–01–P

#### **DEPARTMENT OF TRANSPORTATION**

#### **Federal Aviation Administration**

#### 14 CFR Part 39

[Docket No. 99-ANE-08-AD; Amendment 39-11103; AD 99-07-19]

#### RIN 2120-AA64

# Airworthiness Directives; AlliedSignal Inc. TFE731–40R–200G Turbofan Engines

**AGENCY:** Federal Aviation Administration, DOT.

**ACTION:** Final rule; request for

comments.

**SUMMARY:** This amendment adopts a new airworthiness directive (AD) that is applicable to AlliedSignal Inc. TFE731-40R-200G turbofan engines. This action requires inspection of the fuel flow meter tube assembly part number (P/N) 3061157-2, which connects the fuel control to the fuel flow meter, and eventual replacement of the tube and fuel flow meter mounting bracket. This amendment is prompted by two in-flight shutdowns on two recently certified TFE731-40R turbofan engines within the last six months that resulted from fuel flow meter tube assembly failures. The actions specified in this AD are intended to prevent fuel from spraying on and around electrical components due to a cracked fuel line, which can result in an in-flight engine shutdown, and could possibly result in an engine fire.

DATES: Effective April 21, 1999.