

POLICY REGARDING THE PURCHASE AND HOLDING OF U.S. GOVERNMENT-SPONSORED ENTITY EQUITY SECURITIES

The Indiana Code 28-1-11-12(4) provides that with the express approval of the Department, and except as otherwise provided in this chapter, any bank or trust company shall have the power to purchase and hold shares of the capital stock, bonds, notes, debentures, or any other securities or obligations issued at any time by any agency or instrumentality of the Federal government.

Notwithstanding the provisions established under I.C. 28-1-11-12(4), the Department has determined that the requirement for express approval should be waived for the following Federal government-sponsored equity securities.

- Federal Home Loan Mortgage Corporation (“Freddie Mac”) Preferred stock
- Federal National Mortgage Association (“Fannie Mae”) Preferred stock
- Federal Agriculture Mortgage Corporation (“Farmer Mac”) Preferred stock as required to participate in the various programs sponsored by this entity.
- Federal Home Loan Bank stock as required for membership and participation in the various programs sponsored by this entity (also see 28-1-11-12.5).

In conclusion, the Department authorizes the purchases and retention in unlimited amounts of the Freddie Mac and Fannie Mae Preferred stock and in limited amounts of Farmer Mac and Federal Home Loan Bank stock as permissible investments for Indiana State-chartered banks., subject to safety and soundness considerations. The Department reserves the right to add or delete from this list based upon changes in the status of Federal government-sponsored entities. Institutions that wish to invest in equities securities other than those addressed in this policy statement or specifically referenced in Indiana Code 28-1-11-4, should submit a request in writing to the Department for review and approval.

Safe and Sound Banking Practices

Indiana Code 28-1-11-4 does not limit a state-chartered bank’s investment in securities or debt obligations issued by an agency or instrumentality of the Federal government. However, with equity issues, there are market risks, and share prices may decline due to changes in market interest rates, the issuer’s financial standing, or government tax policies. Therefore, the Department will expect State-chartered bank investors to limit their holdings of equity investments in these Federal instrumentalities to an amount that reasonably relates to the amount of capital that is prudent to place at risk. The Department believes that prudent limits on an investment of this nature is an element of safe and sound banking practices. The board of directors of a State-chartered bank that is contemplating an investment in equity securities should amend its investment policy accordingly and document the appropriate maximum investment level for the bank before making the investment.