



# **CAPITAL PLAN for the Federal Home Loan Bank of Dallas**

## **Summary of Major Provisions**

### **Amended and Updated**

*This summary is neither an offer to sell or exchange nor a solicitation of an offer to purchase or exchange any capital stock of the Federal Home Loan Bank of Dallas. This summary highlights key elements of the capital plan, but is not a complete description of the plan.*

**Changes Effective: April 16, 2007**  
**Last Updated: April 2, 2007**

## **Background**

The Gramm-Leach-Bliley Act of 1999 established a framework for each Federal Home Loan Bank (FHLBank) to establish a new capital structure. The new rules required each FHLBank to replace existing capital stock with a new class or classes of capital stock, establish new minimum investment requirements for members, and comply with new minimum leverage and risk-based capital requirements.

Regulations adopted by the Federal Housing Finance Board in January 2001 required each FHLBank to submit a capital plan to the Finance Board by October 29, 2001 for review and approval. The Dallas Bank's Capital Plan was approved by the Finance Board on June 12, 2002, and the Dallas Bank implemented its new capital structure on September 2, 2003.

The Dallas Bank has modified its Capital Plan twice since the original approval. On June 27, 2003, the Dallas Bank's Board of Directors adopted a technical amendment to the Capital Plan related to the identification of shares of capital stock subject to redemption notices, and the Finance Board approved the capital plan with that amendment on November 12, 2003. On June 24, 2004, the Dallas Bank's Board of Directors adopted an additional amendment to broaden the permissible range for the membership investment requirement (described below), and the Finance Board approved the capital plan with that amendment on February 9, 2005.

This document summarizes the major provisions of the Dallas Bank's approved capital plan, but does not describe all of its provisions. The capital plan itself and the Information Statement distributed to members prior to its implementation provide more detail on each provision. The Capital Plan is available on the Bank's web site at [www.fhfb.com](http://www.fhfb.com). The information statement is available by contacting Brehan Chapman at (214) 441-8459 or by e-mail at [brehan.chapman@fhfb.com](mailto:brehan.chapman@fhfb.com).

## **New Stock Issued by the Dallas Bank**

The statutory framework authorizes each FHLBank to issue either or both of two new classes of capital stock: Class A stock and Class B stock. Each FHLBank must maintain enough total capital to meet a new leverage capital requirement, and must maintain sufficient Class B stock plus retained earnings to meet a new risk-based capital requirement.

Class A stock is redeemable with six months written notice by the member and counts toward an FHLBank's leverage capital requirement. Class B stock is redeemable with five years written notice by the member, confers an ownership interest in the retained earnings of the FHLBank, and counts toward both the FHLBank's risk-based and leverage capital requirements.

The Dallas Bank's capital plan provides that the Bank will issue only Class B stock. Class B stock has a par value of \$100 per share and may be purchased, repurchased, redeemed, and transferred only at its par value.

## Members' Minimum Investment Requirements

Prior to the conversion to the new capital structure, all Bank members were required to maintain an investment in the capital stock of the Bank equal to the greater of 1.0 percent of the member's residential mortgage assets as of the previous December 31, 5.0 percent of all currently outstanding advances, or \$500. Under the new capital structure, members are required to maintain an investment in Class B stock equal to the sum of a membership investment requirement calculated as a percentage of each member's total assets, and an activity-based investment requirement. The activity-based investment requirement is calculated as a percentage of each member's advances outstanding plus the outstanding principal balance of Mortgage Partnership Finance<sup>®</sup> (MPF<sup>®</sup>) Program loans retained on the Bank's balance sheet that have been delivered under master commitments executed after conversion to the new capital structure or master commitments executed prior to the conversion that stipulate they are subject to this requirement. The Bank is not currently holding MPF loans that require a supporting capital stock investment, and does not currently have plans to do so. Members must comply with the activity-based investment requirements for as long as the relevant advances or MPF loans remain outstanding.

The Bank's Board of Directors has the authority to adjust each of the percentage requirements periodically within ranges established in the Capital Plan to ensure the Bank remains adequately and appropriately capitalized.

Effective April 16, 2007, the membership investment requirement will be reduced from 0.08 percent to 0.06 percent of members' total assets as of December 31, 2006, subject to a minimum of \$1,000 and a maximum of \$25 million. The activity-based requirement will continue to be 4.1 percent of advances (and applicable MPF assets).

The current amounts and the authorized ranges for each component are indicated in the table below. Changes beyond the ranges specified in the Capital Plan would require an amendment to the capital plan, which would require Finance Board approval prior to implementation.

Investment Requirement	Minimum Amount	Current Amount	Maximum Amount
<b>Membership Investment Requirement</b>			
Percent of each member's total assets	0.05%	<b>0.06%</b>	0.30%
Maximum membership investment requirement	\$10 mm	<b>\$25 mm</b>	\$50 mm
Minimum membership investment requirement	\$1,000	<b>\$1,000</b>	\$1,000

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<b>Activity-Based Investment Requirement</b>			
<b>Advances</b> (percent of advances outstanding)	3.5%	<b>4.10%</b>	5.0%
<b>MPF</b> (percent of outstanding principal balance of loans retained by the Bank that are delivered under master commitments executed after conversion to the new capital structure or master commitments executed prior to the conversion that stipulate they are subject to this requirement, none of which are currently outstanding)	0.0%	<b>4.10%</b>	5.0%

### **Stock Redemption and Repurchase**

Under the new capital structure, the statute and regulations provide that members may redeem excess stock, or withdraw from membership and redeem all outstanding Class B stock, with five years written notice to the Bank. This five year notice period was stipulated in the statute to add more permanence to the FHLBanks' capital structure.

However, the regulations governing the new capital structure also allow the Dallas Bank, in its sole discretion, to repurchase members' excess stock at any time without regard for the five year notification period as long as the Bank continues to meet its regulatory capital requirements following any stock repurchases. The Bank may repurchase excess stock in response to a member's request, and may also initiate repurchases of members' excess stock with at least 15 days written notice.

Although the Bank is not obligated to repurchase excess stock at any time except at the end of a five year redemption notice period, and can make no assurances about the future, the flexibility provided by the regulations has allowed the Bank to continue its prior practice of repurchasing members' excess stock in the normal course of business.

### **Additional Information**

Additional information about the Bank's capital plan may be obtained by contacting a Member Sales Officer at (800) 442-9841, or Paul Joiner at (214) 441-8582 or by e-mail at [paul.joiner@fhlb.com](mailto:paul.joiner@fhlb.com).

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