

## BUREAU OF BANKING

Department of Professional and Financial Regulation

State of Maine

July 3, 1978

### BULLETIN #1 FEDERAL FUNDS SALES

To the Chief Executive Officer Addressed:

A financial institution may loan or sell to any commercial bank insured by the Federal Deposit Insurance Corporation or to the Federal Home Loan Bank of which it is a member, deposits which it maintains with insured commercial banks, a Federal Reserve Bank, or a Federal Home Loan Bank (9-B M.R.S.A. § 438(1)). These "federal funds" loans or sales mean overnight loans to insured commercial banks which are payable the next business day.

Sales of federal funds are exempt from the statutory restrictions on the amount a state-chartered financial institution can lend to a single borrower and from any aggregate lending limits. However, since federal funds sales are not riskless investments, the Bureau has become concerned about the potential exposure to loss.

The Bureau recognizes that federal funds are excellent short-term instrument for liquidity or cash flow purposes and have provided very attractive yields in recent months. Nevertheless, when the volume of federal funds sold exceeds an institution's reasonable liquidity needs, there is the possibility that local credit needs may be overlooked.

The Bureau of Banking requests that every financial institution take the following actions:

- I. Establish a policy regarding federal funds transactions by vote of your Board of Directors (Trustees) which should include:
  - a. A list of the banks to whom you will sell;
  - b. The dollar limit that your bank will sell to each of these banks:
    1. On a unsecured basis
    2. Secured by U.S. Government obligations
  - c. The maximum amount of federal funds your bank will sell on any one business day.
- II. Maintain, for each transaction, documentation which includes the following:
  - a. Name of purchasing bank
  - b. Amount of federal funds sold

- c. Rate of interest received
- d. Maturity date of transaction
- e. Description of collateral pledged, if any.

The Bureau will review your policy statement and records as a part of our regular examination process.

/s/ John A. Durham

Superintendent