



BANKING ISSUANCES

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Section 308 of the Federal Deposit Insurance Corporation Improvement Act of 1991 requires the Board of Governors of the Federal Reserve System (FRB) to develop regulations to limit the risks posed by exposure of an insured depository institution to any other depository institution. The FRB's final implementing rule was published in the Federal Register, December 18, 1992, Volume 57, No. 244, page 60086; the regulation is attached.

Banks must prepare internal procedures (Prudential Standards) to evaluate and control their exposure. These procedures are to include limits on both credit and settlement exposures to individual correspondents. The limits must be based upon an analysis of the overall financial condition and credit worthiness of each correspondent.

The rule also establishes benchmark Guidelines for Credit Exposure for overnight credit exposures to individual correspondents, within which a bank ordinarily would be expected to remain. The benchmarks are tiered based on the capital position of the correspondent bank.

Only the Prudential Standards provisions (Section 206.3) become effective June 19, 1993. The Guidelines for Credit Exposure have a transitional period before becoming fully effective. At the end of the first year, on June 19, 1994, exposure to a correspondent that is not well capitalized or adequately capitalized will be limited to 50 percent of the exposed bank's capital. The exposure limit will decline to 25 percent when the guidelines become fully effective on June 19, 1995.

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