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FISCAL IMPACT REPORT

SPONSOR Hall DATE TYPED 2/10/05 HB 380

SHORT TITLE County Investments in Federal Home Banks SB _____

ANALYST Hadwiger

APPROPRIATION (in \$000s)

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
	NFI				

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Office of the Attorney General (AG)
 Department of Finance and Administration (DFA)
 State Treasurer
 State Investment Council

No comments were received from the New Mexico Municipal League or Association of Counties at the time this F.I.R. was prepared.

SUMMARY

Synopsis of Bill

House Bill 380 would allow counties or municipalities to invest all sinking funds or money remaining expended from any issue of bonds or other negotiable securities in federal home loan banks.

Significant Issues

According to the State Investment Council (SIC), local governments are currently allowed to invest in other federal agency securities, including the federal home loan mortgage association, the federal national mortgage association, and federal farm credit bank. The SIC indicates the federal home loan bank (FHLB) securities are of comparable credit quality to the other federal agency securities currently allowed by law.

The Department of Finance and Administration (DFA) noted FHLBs have existed since 1932 and are situated throughout the United States and Canada. Although FHLBanks have been established for seventy-three years, Section 6-10-10 NMSA 1978 (formerly being Laws of 1933, Chapter 175, Section 4) never included them as an investment and lending institution available to municipalities and counties. And as such, FHLBanks could not conduct banking business in the State of NM.

One of the commenting agencies indicated incorrectly that FHLB investments are backed by the full faith and credit of the federal government. This is not accurate. According to the FHLB web site, "FHLBanks borrow funds to support their operations principally through the sale of debt securities known as consolidated obligations... Consolidated obligations are not obligations of, nor are they backed by the full faith and credit of, the United States and the United States does not guarantee them." In this sense, the FHLB is similar to investments in the federal home loan mortgage association (Fannie Mae). Local governments are currently allowed to invest in Fannie Mae instruments; however, recent reports regarding problems in financial management at Fannie Mae suggest that these investments should proceed only with appropriate diligence.

FISCAL IMPLICATIONS

The SIC indicated that investment revenue could be enhanced by allowing a broader choice of potential investments without an increase in risk.

Because these investments are not backed by the United States government, there would be more risk than some other investment options.

DH/sb