FDIC

Federal Deposit Insurance Corporation
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Financial Institution Letter
FIL-41-2009
July 8, 2009

CALIFORNIA REGISTERED WARRANTS
Interagency Statement

Summary: The federal financial institution regulatory agencies are jointly issuing the attached supervisory guidance for financial institutions regarding the regulatory capital treatment for registered warrants issued by the State of California as payment for certain obligations.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Accounting Officer

Related Topics:
Risk-Based Capital Standards
12 CFR Part 325

Attachment:
Interagency Statement on California Registered Warrants

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Highlights:

- The Attorney General of the State of California has opined that the registered warrants that the State is issuing as a form of payment for certain of its obligations are valid and binding obligations of the State.

- The banking agencies' risk-based capital standards permit a banking organization to risk weight general obligation claims on a state at 20 percent. These warrants, which are general obligations of the State, would, therefore, be eligible for the 20 percent risk weight for risk-based capital purposes.

- Banks should exercise the same prudent judgment and sound risk management practices with respect to the registered warrants as they would with any other obligation of a state.

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Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision

INTERAGENCY GUIDANCE ON CALIFORNIA REGISTERED WARRANTS

JULY 8, 2009

This interagency statement offers guidance for financial institutions regarding California registered warrants (warrants). Beginning July 2, 2009, and until a budget is passed, the State of California (State) intends to issue warrants for most general fund payments. The State is issuing these warrants, for example, as payment to individuals for income tax refunds, local governments for social services, and private contractors and state vendors for goods and services provided to the State. State chartered financial institutions should ensure their holdings of warrants are consistent with applicable state laws and regulations.

The State Attorney General has opined that these warrants are valid and binding obligations of the State. Because they share the same expected source of repayment, the warrants generally have the same credit quality characteristics as the State's other general obligations. For risk-based capital purposes, general obligation claims on a state receive a 20 percent risk weight. [1] Therefore, these warrants would also receive the same risk weighting.

As with any obligation issued by a jurisdiction, financial institutions should exercise prudent judgment and sound risk management practices with respect to the warrants. Financial institutions are individually responsible for understanding, managing, and controlling the risks and obligations arising from accepting and holding these warrants. Risk management practices should include evaluating the credit quality of the warrants, establishing appropriate concentration limits, and ensuring appropriate liquidity risk management. Supervisors will evaluate financial institutions' risk management practices as part of the normal supervisory process.

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[1] Federally Insured Credit Unions are subject to NCUA Rules and Regulations Section 702.103 titled Applicability of risk-based net worth requirements.