

## Press Releases

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### OTS 00-89 - Notice of Certain Holding Company Actions Part of OTS Plan to Safeguard Thrift Subsidiaries

#### Office of Thrift Supervision

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For further information

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### Notice of Certain Holding Company Actions Part of OTS Plan to Safeguard Thrift Subsidiaries

WASHINGTON, D.C., Oct. 25, 2000 - The Office of Thrift Supervision (OTS) issued a proposal today that will require some savings and loan holding companies to notify OTS 30 days before undertaking certain significant new business activities so the agency can assess the potential impact on the risk profile of the consolidated entity and subsidiary thrifts. The proposal covers activities that significantly increase holding company debt, reduce capital substantially or involve certain asset acquisitions.

The proposal also contains OTS's criteria for evaluating holding company capital. The rule, to be published in the October 27 issue of the Federal Register, is part of a comprehensive strategy designed to strengthen the agency's oversight of thrift holding companies and curb activities that could materially harm thrift subsidiaries. The comment period runs through December 26.

Besides today's proposal, the new strategy has two additional key elements: (1) guidance to examiners on new holding company exam procedures that utilize a risk-focused approach and that explains how the Gramm-Leach-Bliley Act impacts exams of holding companies and functionally regulated affiliates; and (2) efforts to make greater use of market information and to collect holding company data on the quarterly thrift financial report (TFR) to improve OTS's monitoring and surveillance capability. A final rule on collecting TFR data will be issued soon.

OTS currently oversees approximately 960 holding companies, including shell holding companies, insurance and securities firms and a limited number of commercial corporations.

"The sheer diversity of this group poses unique challenges for the agency and demands a more individualized approach to supervision," said Scott M. Albinson, managing director for supervision at OTS. "How we look at a small shell holding companies, whose only asset may be its investment in the subsidiary thrift, will often differ from how we look at a large, diversified commercial or financial services firm. The reality is that many holding companies today have complex structures and a labyrinth of internal relationships with their thrift subsidiaries in which the thrift is dependent on the financial and managerial resources of its parent organization.

"Our new approach is to leverage more fully the resources of OTS, other regulatory agencies that share in the supervisory function and the market. Because of the variety and complexity of holding companies we supervise, we believe a static capital requirement is inappropriate," Albinson said. "Advance notification of significant changes in the consolidated organization will complement our case-by-case analysis of holding company capital and give holding companies the flexibility they desire."

### **Provisions of the New Proposal**

The new supervisory strategy is predicated on the view that "the financial stability and health of a savings and loan holding company can have a direct impact on the financial condition of its subsidiary thrift." On various occasions through examinations and other means, OTS said it has identified holding companies engaged in or committed to major transactions or activities that have or could have had a "substantial negative effect " on the thrift. As proposed, the holding company would have to give OTS advance notice if:

1. debt, combined with all other transactions by the holding company or any subsidiaries other than the thrift during the past 12 months, increases non-thrift liabilities by 5 percent or more; and non-thrift liabilities, after the debt transaction, equal 50 percent or more of the holding company's consolidated core capital;
2. an asset acquisition or series of such transactions by the holding company or non-thrift subsidiary during the past 12 months that involves assets other than cash, cash equivalents and securities or other obligations guaranteed by the U.S. Government and exceeds 15 percent of the holding company's consolidated assets; and
3. any transaction that, when combined with all other transactions during the past 12 months, reduces the holding company's capital by 10 percent or more.

Exempt from the notice requirement would be any holding company with consolidated subsidiary thrift assets of less than 20 percent of total assets or consolidated holding company capital of at least 10 percent. OTS could object to or conditionally approve an activity or transaction if it finds a material risk to the safety and soundness and stability of the thrift. The review period could be extended an additional 30 days if necessary.

In its proposal, OTS is asking if it has properly identified activities that may pose a risk to the safety and soundness of a subsidiary thrift or if additional activities should be included, will a notice adversely impact a holding company and are the applicable percentages or numerical thresholds appropriate?

OTS proposes to codify current practices and the factors relevant to a holding company's need for capital support, believing such a step will promote a better understanding of the agency's supervisory approach and help ensure that capital principles are applied consistently on a case-by-case basis in the holding company context.

To determine the need for and level of an explicit holding company capital requirement, OTS looks at overall risk at the thrift and the consolidated entity, their tangible and equity capital, whether the holding company's debt-to-capital ratio is rising, what investments or activities are funded by debt, its cash flow, how much the holding company relies on dividends from the subsidiary thrift to service debt or fulfill other obligations, earnings volatility and the thrift's standing in the corporate structure. OTS is asking if these are the right factors to consider in this assessment.

Proposed Rule - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2000-89a.pdf>

Holding Company Flow Chart 1

Holding Company Flow Chart 2

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The Office of Thrift Supervision (OTS), an office of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents visit the OTS web page at [www.ots.treas.gov](http://www.ots.treas.gov).