

Press Releases

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OTS 96-63 - OTS Modernizes Lending Regulations for Thrifts

Office of Thrift Supervision

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OTS MODERNIZES LENDING REGULATIONS FOR THRIFTS

WASHINGTON, D.C., Sept. 26, 1996 -- A slimmed down version of the rules governing lending by savings associations was announced today by the Office of Thrift Supervision (OTS). The final rule virtually cuts in half -- from 43 to 22 -- the number of lending and investment regulations and eliminates 11 pages from the Code of Federal Regulations. This streamlining makes OTS regulations more consistent with those of the other banking agencies. After reviewing comments on a proposed rule issued in January 1996, OTS changed some provisions of the final regulation. For example, additional changes in the final rule were made to the section on letters of credit to better reflect current industry practices. Thrifts that wish to engage in a broader variety of transactions that are the fundamental equivalent of letters of credit may now do so with prior approval from OTS.

In response to comments received on the proposed rule, OTS beefed up a section of the final rule to confirm and clarify that its lending regulations, and their underlying federal law, continue to pre-empt state laws.

Some detailed rules formerly included in the regulations have been replaced with more general rules that will give institutions greater flexibility. These include loan documentation, classifying assets based on the soundness of loans, and establishing appropriate valuation allowances to cover potential losses. More detailed provisions have been incorporated into the agency's handbooks and bulletins as less formal guidance. OTS emphasized, however, that institutions must continue to conduct these operations safely and soundly.

To make the rules easier to locate, all lending-related regulations have been grouped together (in new part 560). And, the changes in the lending rule are clearly presented in a chart. Another chart conveniently shows for each lending and investment power its statutory authority and any restrictions on its use.

The final lending and investment regulation is the latest step in the on-going OTS effort to reduce regulatory burden on the approximately 1,400 thrift institutions it regulates. This

process eliminates unnecessary, duplicative or outdated regulations and revises other regulations to make them less burdensome and more user friendly. For example, unnecessary detail was removed from the regulations on loan documentation in favor of general requirements documenting safe and sound underwriting.

Other changes in the final regulation:

- Modestly increase thrifts' commercial lending authority through their service corporation subsidiaries by no longer requiring that commercial loans made by a service corporation be aggregated with those of the parent thrift. Thus, commercial loans by a service corporation are no longer subject to the parent thrift's commercial lending limit of 10 percent of assets.
- Eliminate limits on the amount of a loan relative to the value of the collateral and the length of payback periods on loans for manufactured housing, including mobile homes and prefabricated structures. The change emphasizes OTS policy requiring thrifts to establish their own prudent underwriting standards under OTS supervision.
- Modify the requirement for selecting indices used to set interest rates on adjustable-rate loans to bring rules for thrifts in line with those of other mortgage lenders.
- Narrow the scope of OTS' regulation establishing disclosure requirements for adjustable-rate mortgages to apply primarily to those loans subject to Regulation Z disclosure.
- Relax restrictions on federal thrifts' ability to invest in state housing authorities and government obligations, allowing them to invest in housing authorities in any state where they have an office, instead of just in their home state. Federal thrifts would be able to invest in nonrated government obligations in excess of the current 1 percent of assets limit if OTS approves the obligation for investment.
- Relax limits on leasing and merge finance leasing and general leasing rules into one regulation.

The final rule is effective Oct. 30, 1996. It is scheduled to be published in the Federal Register on Sept. 30, 1996, and is the first major overhaul of OTS' lending regulations since 1983.

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS' 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 call PubliFax at 202/906-5660, or visit the OTS web page at www.ots.treas.gov.