Regulatory Bulletin

RB 3a was rescinded 1/9/90 by RB 3a-1. Click HERE to link to RB 3a-1.

Handbook: Thrift Activities — **Section: 410**
Subjects: Asset/Liability Structure — **RB 3a**

September 7, 1988

Policy Statement on Growth for Insured Institutions

RESCINDED

Summary: This Bulletin establishes supervisory policy with respect to the growth policies of insured institutions, particularly insolvent or undercapitalized institutions. Memorandum SP-62, dated October 11, 1985, is rescinded with the issuance of this Bulletin. RB 3 is also rescinded.

For Further Information Contact:
The FHLBank District in which you are located, or the Policy Division of the Office of Regulatory Activities, Washington, DC.

Regulatory Bulletin 3

General Policy
It is the general policy of the Federal Home Loan Bank Board to ensure that asset and liability growth of insured institutions is prudent, adequately capitalized and conducted in a manner that is consistent with safety and soundness and the interests of the FSLIC. It is the responsibility of the Principal Supervisory Agent to implement and monitor this policy.

Excessive asset growth by any institution, as determined by the PSA on the basis of the institution's management and asset quality, capital adequacy, interest rate risk profile and operating controls and procedures, is deemed an unsafe and unsound practice. As a general rule, troubled or insolvent institutions will be permitted little or no growth under this policy, subject to PSA discretion and waiver authority.

In addition, all institutions except those whose regulatory capital already exceeds the "fully phased-in" requirement established under Section 563.13 must increase their capital by their fully phased-in requirement (6% of all growth in liabilities plus the contingency component, less the maturity matching credit, if applicable) as required by Section 563.13(b)(3). The increased capital must be available to support the growth at the time liabilities are increased. Institutions that meet the "fully phased-in" capital requirement must ensure that proposed growth will not cause them to fall below that requirement in the future.

Troubled Institutions
For purposes of this Bulletin, troubled institutions are defined as those with a MACRO rating of 4 or 5, institutions failing their minimum regulatory capital requirement, or institutions otherwise identified as troubled by supervisory personnel.

All troubled institutions must submit and be subject to a capital restoration plan that, among other things, prohibits them from increasing their liabilities in excess of the amount of interest credited unless approved by the PSA. PSAs may permit an institution's liability growth to exceed interest credited when required to fund existing legally binding loan commitments and loans-in-process.

The PSA may waive the capital plan requirement and permit growth in excess of the amount of interest credited on liabilities only if the institution can demonstrate to the satisfaction of the PSA that its regulatory capital deficiency is temporary and rapidly correctable.

RAP Insolvent Institutions
RAP insolvent institutions may not make any new loans or investments under their capital plan unless explicitly approved in advance by the PSA. In the event of writedowns on assets, the subsequent asset balance will become the new balance on which to base the approval or disapproval of further growth.

PSA approval for insolvent institutions to make new loans or investments should only be granted when it is clearly documented to be in the best near-term interests of the FSLIC. Limited and controlled growth for insolvent institutions may be in the best near-term interests of the FSLIC to maintain an institution's "franchise value". The institution's franchise value is typically determined by core retail deposits that enhance the attractiveness of a firm to an acquirer and help lower the costs of resolution to the FSLIC. Another case where limited growth may be appropriate is to maintain the viability of an insolvent institution's mortgage lending operation. The PSA may issue a blanket waiver to an insolvent institution to engage in controlled low-risk growth to maintain the institution's franchise value.

To assist the Office of Regulatory Activities in its oversight role, District Banks must report to the Office of Regulatory Activities all growth waivers approved for troubled or insolvent institutions. The reports should explain the growth strategies for each institution receiving a waiver. The Office of Regulatory Activities will consolidate these reports and provide periodic reports to the Federal Home Loan Bank Board and the Federal Home Loan Banks.

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