

Press Releases

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OTS 96-03 - OTS Proposes Cutting Lending Regulations by More than Half

Office of Thrift Supervision

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OTS PROPOSES CUTTING LENDING REGULATIONS BY MORE THAN HALF

WASHINGTON, D.C., Jan. 17, 1996 -- A proposal issued today by the Office of Thrift Supervision (OTS) would cut 60 percent of the regulations governing lending and investment by savings associations by eliminating 12 of 20 pages on the subject in the Code of Federal Regulations (CFR).

The proposal is part of OTS' continuing effort to make its regulations more user friendly and reduce the regulatory burden on the institutions it supervises, consistent with safety and soundness.

"By getting away from 'cookie cutter' and 'one size fits all' regulations, we're giving thrifts more flexibility to tailor their operations to better meet the needs of their customers," said John Downey, executive director, Supervision. "Enhancing flexibility and reducing paperwork will hopefully make the lending process easier for both savings institutions and their customers," he noted.

"We believe we can simplify our rules and give thrift management more flexibility without jeopardizing the safety and soundness of thrifts' lending and investing operations," said Carolyn Buck, OTS chief counsel. "We are eliminating numerous picky details from the regulations, while leaving fundamental safety and soundness constraints in place," she said.

Besides striking unnecessary requirements, the proposal would give thrifts the possibility of a modest increase in commercial lending through their service corporation subsidiaries.

Unnecessary detail would be removed from the rules on loan documentation in favor of general requirements documenting safe and sound underwriting. The proposal also would minimize inequities between federally and state-chartered associations and eliminate redundant or obsolete provisions.

Final approval of the proposal would result in the first major overhaul of OTS' lending regulations since 1983. The streamlining of lending rules is part of the second phase of OTS' effort to reduce regulatory burden consistent with the agency's mission to ensure the safe and sound operation of the thrift industry. The first phase was concluded Dec. 27, 1995, with publication of a final rule eliminating 8 percent of all OTS regulatory sections because they were obsolete, unnecessary or duplicative.

Today's proposal would consolidate most lending regulations into one area of the regulations to make them more user friendly.

Other changes would:

- Remove the requirement that commercial loans made by a savings association service corporation must be included in the investment limitations placed on the parent thrift. Commercial loans of a thrift are limited to 10 percent of its assets. The change would permit thrifts to do more commercial lending through service corporations. However, the investments of federally chartered thrifts in their service corporations would continue to be limited to a maximum of 3 percent of assets.
- Confirm and clarify that OTS lending regulations, and the federal law on which they are based, continue to pre-empt state laws.
- Ease restrictions on letters of credit, but make them apply to state-chartered thrifts in addition to federal institutions.
- 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.
- Remove the requirement that Federal thrifts link their adjustable-rate mortgage loans to an index outside their control.
- Narrow the scope of OTS' regulation establishing disclosure requirements for adjustable rate mortgages to apply primarily to those loans for which disclosure is required under Regulation Z.
- Relax restrictions on federal thrifts' ability to invest in state housing authorities and government obligations. Instead of being permitted to invest only in housing authorities in the institution's home state, federal thrifts would be able to invest in housing authorities in any state in which they have an office. 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.
- Replace the current regulation requiring savings associations to classify troubled assets with more flexible guidance.

The notice of proposed rulemaking was published in today's Federal Register. OTS will accept written comments for 90 days (until April 16). ###

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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.