

## Press Releases

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July 22, 1997

OTS 97-47 - Higher Cap Proposed on Mortgage Servicing Assets Included in Capital

## Office of Thrift Supervision

# NEWS

FOR RELEASE at 3:00 p.m. EDT  
Tuesday, July 22, 1997  
OTS 97-47

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### **HIGHER CAP PROPOSED ON MORTGAGE SERVICING ASSETS INCLUDED IN CAPITAL**

WASHINGTON, D.C., July 22, 1997 -- Depository institutions could increase the amount of mortgage servicing assets they count toward meeting minimum regulatory capital requirements under a proposed rule announced today by the Office of Thrift Supervision (OTS). The proposed rule will be published jointly by OTS and the other banking regulatory agencies.

The proposal would raise the current cap, which affects mortgage servicing assets and purchased credit card relationships, from 50 percent of Tier 1 capital to 100 percent. Raising the cap would reduce the amount of servicing assets institutions must deduct when computing regulatory capital. The agencies believe the higher cap is more reasonable in light of revised accounting guidance that includes prudent valuation and impairment standards.

The business of servicing mortgages -- collecting payments and passing on interest and principal to the mortgage holders for a fee -- can be profitable. The present value of expected future income from servicing mortgage loans is booked as an asset. Under the current rule, any mortgage servicing assets exceeding the current cap of 50 percent of core capital must be deducted from both assets and equity capital when computing regulatory capital.

The proposed rule would not change some current practices. For example, institutions would continue to follow generally accepted accounting principles (GAAP) for financial reporting of servicing assets, applying the same accounting treatment regardless of whether the institution purchased the right to service the mortgages or originated the mortgages. Also unchanged is

the capital treatment of purchased credit card relationships -- the value of a credit card customer base. Purchased credit card relationships could be included in assets and capital, but only up to a 25 percent of Tier 1 capital sublimit. Amounts exceeding that limit would be deducted from both assets and capital when computing regulatory capital.

All mortgage servicing assets and purchased credit card relationships would continue to be subject to a 10 percent haircut, meaning that 90 percent of their fair value could be included within the cap.

The proposal would prohibit the inclusion of any non-mortgage servicing assets, such as the servicing of car, boat and mobile home loans, in computing regulatory capital. Unlike mortgage servicing assets, which are regularly bought and sold, the less-developed market for non-mortgage servicing assets does not produce sufficiently reliable market value for these assets.

In general, excess servicing fees receivable that were previously included in regulatory capital by thrifts would be reclassified under GAAP as either servicing assets or interest-only strips receivable. The proposal asks for comment on whether interest-only strips receivable should be included without limit or be subject to the same caps and limits as mortgage servicing assets.

The notice of proposed rulemaking will be published jointly in the Federal Register by OTS, the Comptroller of the Currency, the Federal Reserve System and the Federal Deposit Insurance Corporation. The agencies will accept comments on the proposal for 60 days following publication.

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