Press Releases

October 27, 1997

OTS 97-76 - Standard Risk Capital Rules Proposed for Thrifts and Banks

Office of Thrift Supervision

NEWS

FOR RELEASE at 11:30 a.m. EST	For further information
Monday, October 27, 1997	Contact: Paul Lockwood
OTS 97-76	202/906-6693

STANDARD RISK CAPITAL RULES PROPOSED FOR THRIFTS & BANKS

WASHINGTON, D.C., Oct. 27, 1997 -- As required by Congress, the Office of Thrift Supervision (OTS) in concert with three other federal banking agencies, today took an important step toward adopting uniform minimum capital requirements for thrifts and banks.

OTS, Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), and Federal Reserve System (FED) proposed to modify their rules to standardize risk-based capital treatment for three areas:

* Construction loans on presold residential properties;
* Real estate loans secured by junior liens on 1- to 4-family residential properties; and
* Investments in mutual funds

Risk-based capital standards permit depository institutions to hold less capital for lower risk loans, by assigning each loan or other asset a risk weight. For example, a qualifying one-to-four-family mortgage loan has a risk weight of 50 percent. That means risk-based capital must be held against only 50 percent of the outstanding loan balance. In contrast, a commercial loan is risk-weighted at 100 percent.

In addition, the proposal would simplify the agencies' Tier 1 leverage standards by making them uniform and by aligning the standards to the agencies' prompt corrective action regulations.

The joint notice of proposed rulemaking was published in today's Federal Register. Comments will be accepted during the 60-day period following publication.

Construction loans on presold residential property: All four agencies would adopt the current practice of the FDIC and the Fed for qualifying residential construction loans. Currently, the FDIC and the Fed assign a 50 percent risk weight to these loans once the property is sold and other criteria are satisfied, even if the sale occurs after the construction loan is made. OTS and the OCC currently permit the institution to use a 50 percent risk weight only if the property was sold before the construction loan is made.

Junior liens on 1- to 4-family residential properties: The agencies propose adopting the OCC's current treatment of junior liens on one- to four-family residential properties. This approach treats first mortgages and junior liens separately. Qualifying first mortgages are placed in the 50 percent risk-weight category. Nonqualifying first mortgages and all junior loans are placed in the 100 percent risk-weight category. The rules of the Fed and the FDIC use different approaches that generally treat first and second loans to the same borrower as a single extension of credit. The current OTS rule parallels the OCC's rule, but, in certain circumstances, OTS has interpreted the loans as a single extension of credit.

Mutual funds: The agencies would require an institution to assign its total investment in a mutual fund to the highest risk weight applicable to any asset that the fund is authorized to hold according to its prospectus. An institution, however, could opt to assign the investment on a pro-rata basis to different risk weight categories according to the investment limits for different categories in the fund's prospectus. Current OTS rules are similar, but are based on the actual holdings of the fund, rather than the limits in the prospectus.

The agencies also propose to require all institutions, other than those with the highest composite supervisory rating, to have a Tier 1 capital ratio (the ratio of Tier 1 capital to total assets) of 4 percent. Institutions with the highest supervisory rating would continue to be subject to a lower 3 percent Tier 1 leverage ratio requirement. The change would align the agencies' Tier 1 capital leverage standards with their Prompt Corrective Action rules.

The proposal is one of a series of steps the agencies are taking to implement a provision of the Riegle Community Development and Regulatory Improvement Act of 1994 requiring the federal banking agencies to work toward uniform regulations and policies.

View the Proposed Rule -
Risk-Based Capital Standards: Construction Loans on Presold Residential Properties; Junior Liens on 1- to 4-Family Residential Properties; and Mutual Funds and Leverage Capital Standards: Tier 1 Leverage Ratio

###

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.