

Press Releases

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OTS 97-82 - Lower Thrift Liquidity Minimums Adopted by OTS

Office of Thrift Supervision

NEWS

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For further information

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Lower Thrift Liquidity Minimums Adopted OTS

WASHINGTON, D.C., Nov. 24, 1997 -- The Office of Thrift Supervision (OTS) today lowered the liquidity requirement for savings associations from 5 to 4 percent of the institution's liquidity base, the minimum required by current law. OTS maintains, however, that the law and requisite regulation no longer serve a useful purpose in today's financial marketplace and continues to urge Congress to repeal the law.

OTS notes that simply meeting the minimum liquidity requirement does not automatically mean a thrift institution has sufficient liquidity for safe and sound operation. The new final rule requires that each savings association must maintain sufficient liquidity to ensure its safe and sound operation.

Today's final rule also eliminates a separate limit that required thrifts to hold assets equal to 1 percent of a thrift's liquidity base in cash or short term liquid assets. Additionally, OTS streamlined the calculations used to measure compliance with liquidity requirements, expanded the types of assets that can be considered liquid to conform with provisions of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and reduced the liquidity base by modifying the definition of net withdrawable account to exclude accounts with maturities exceeding one year. The liquidity base is withdrawable funds plus borrowings that must be paid back on demand or within one year.

The final liquidity rule, published in today's edition of the Federal Register and effective immediately, increases regulatory flexibility and is part of OTS' ongoing effort to simplify its regulations and reduce regulatory burden.

After reviewing comments, OTS made several changes to the proposed rule issued May 14, 1997. One change permits savings associations to use either the existing or new method of calculating their liquidity base. The new method requires the calculation once each quarter rather than monthly. Another change removes the requirement that certain obligations must mature in five years or less in order to qualify as a liquid asset.

Adequate liquidity may vary from institution to institution depending on a thrift's overall asset/liability structure, market conditions, activities of financial service competitors and the requirements of its own deposit and loan customers. OTS examiners take all these factors into account in assessing whether an institution has sufficient liquidity. Other federal banking agencies use the same approach.

The Home Owners' Loan Act requires OTS' director to set the minimum liquidity level within a range of 4 to 10 percent of an institution's liquidity base. Thrift institutions must hold cash and various liquid instruments equal to at least that minimum. The statutory liquidity requirement was originally designed as a mechanism for regulating the supply of money available for home loans. In the past, OTS' predecessor, the Federal Home Loan Bank Board, adjusted the minimum liquidity requirement to satisfy changing economic conditions, raising the requirement when mortgage money was abundant and lowering it when mortgage money was scarce.

Circumstances have changed dramatically since 1950 when the first liquidity law was enacted. In recent decades, an active secondary market for home loans has developed. By selling their mortgages to investors in the secondary market, housing lenders can quickly and easily turn home loans into cash. Therefore, adjusting liquidity requirements for thrifts is no longer an effective or appropriate means of regulating funds available for mortgage lending.

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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