

Press Releases

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OTS 98-56 - Higher Cap Approved on Thrifts' Servicing Assets Included in Capital

Office of Thrift Supervision

NEWS

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Higher Cap Approved On Thrifts' Servicing Assets Included In Capital

WASHINGTON, D.C., Aug. 7, 1998 -- Thrift institutions may double the amount of servicing assets they count toward meeting minimum regulatory capital requirements under a final rule announced today by the Office of Thrift Supervision (OTS).

The rule raises the current cap, which applies a 50 percent of Tier 1 (core) capital limit on mortgage servicing assets, to a 100 percent cap on both mortgage and non-mortgage servicing assets. Raising the cap reduces the amount of servicing assets institutions must deduct when computing regulatory capital. OTS and the other federal banking agencies jointly publishing the rule believe the higher cap is more reasonable in light of revised accounting guidance from the Financial Accounting Standards Board (FASB) that includes prudent valuation and impairment standards, as well as the expansion and deepening of the market for these assets.

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 cash flows from servicing mortgage loans is booked as an asset. With the new FASB rules and the deeper market, valuation of the expected cash flow will be more judicious and consistent.

Institutions must 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. Non-mortgage servicing assets, such as servicing car and mobile home loans, may be included in capital, but only up to a 25 percent of Tier 1 (core) capital sublimit. Amounts exceeding that limit must be deducted from equity capital when computing regulatory capital.

The aggregate value of all servicing assets will continue to be subject to a 10 percent haircut, meaning that only 90 percent of their fair value can be included within the cap. In general, excess servicing fees receivable that were previously included in regulatory capital by thrifts have been reclassified under GAAP as either servicing assets or interest-only strips receivable. Under this rule, interest-only strips receivable may still be included in regulatory capital but without the limits imposed on servicing assets. However, limits from other regulations and guidance may apply.

The joint rule provides that purchased credit card relationships -- the value of a credit card customer base - may be included in capital to the same extent as non-mortgage servicing assets. Specifically, purchased credit card relationships are included with mortgage servicing assets and non-mortgage servicing assets in the computation of the 100 percent of Tier 1 (core) capital limit. They also are included with non-mortgage servicing assets in the computation of the 25 percent of Tier 1 (core) capital sublimit and are subject to the 10 percent haircut. Those provisions apply more to banks, since thrifts generally do not have purchased credit card relationships.

The regulation is scheduled to be published jointly in the Federal Register on Monday, Aug. 10, 1998, by OTS, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation. The rule will be effective Oct. 1, 1998, but thrifts and banks may adopt the provisions of the rule as soon as it is published.

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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 and other documents call PubliFax at 202/906-5660, or visit the OTS web page at www.ots.treas.gov.