

## Press Releases

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OTS 98-88 - OTS Adopts More Equitable Assessments on Regulated Thrifts

### Office of Thrift Supervision

# NEWS

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For further information

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### **OTS Adopts More Equitable Assessments On Regulated Thrifts**

WASHINGTON, D.C., Nov. 30, 1998 - The Office of Thrift Supervision (OTS) today adopted a revised formula to bring the assessments on savings institutions under its supervision more in line with the actual cost of regulating them.

The new formula reduces the degree to which some thrifts in effect currently subsidize the cost of regulating other thrifts. Since the agency receives no tax dollars, it relies on assessments on the industry to fund its operations. The new formula, in the form of a final rule published in today's Federal Register and an implementing thrift bulletin, is effective for the first semi-annual assessment of 1999.

In the aggregate, the new assessment schedule will result in lower assessments for healthy, well-managed, traditional thrifts that do not have large, complex operations reflected in substantial amounts of off-balance sheet activities. Assessments will rise for some thrifts that engage in significant levels of administering trusts, servicing loans for others, or that have large amounts of off-balance-sheet contingent liabilities, such as recourse obligations or direct credit substitutes. Assessments will also increase for institutions that receive a less than fully satisfactory performance rating -- an exam rating of 3. Institutions rated 4 or 5 also will be charged a premium, as under the current rate schedule. OTS' analysis of its allocation of supervisory resources has shown that thrifts with such large, complex operations or lower performance ratings require significantly more supervisory review than comparably sized institutions.

Overall, OTS estimates that over 90 percent of the thrifts it supervises will pay the same or a lower assessment under the new schedule. In particular, existing healthy, traditional, small institutions will benefit from a special provision ensuring their assessment will not be greater than it would have been under the prior schedule. OTS estimates that 26 of the 50 largest thrifts will have a lower assessment under the new plan, while 24 will pay higher amounts.

"The purpose of changing the assessment schedule is to make assessments fairer by better aligning our assessments with our supervisory costs," said Director Ellen Seidman. "Given the higher levels of supervisory resources required by more complex and riskier activities, and the growth in these activities among a limited number of thrifts, we simply needed to change how we covered our costs of regulation for the future."

Thus, the new assessment formula will be based on three components: a thrift's size, its condition, and the complexity of its operations.

**Asset Size** - OTS' current assessment schedule incorporates a sliding scale formula that reflects economies of scale by decreasing rates as an institution's assets increase. The new size component retains this economies of scale approach, but also builds some of OTS' fixed supervisory costs into the base assessment level. These costs, including the costs of drafting regulations and policies and basic examination costs, do not vary depending upon an institution's size, condition, or complexity. The new rule assesses existing small savings institutions that have never had assets over \$100 million and that remain under this threshold using a size component that is the lesser of the amount calculated under the new schedule or the current rate schedule. New thrifts will pay assessments based entirely on the new formula.

**Complexity** - Currently, the higher examination and supervisory costs for large, complex activities involving certain off-balance sheet assets are shared by all institutions, whether or not they engage in these activities. In effect, institutions with minimal or no off-balance sheet assets have subsidized the cost of supervising the others. Under the new formula, OTS will charge a higher assessment to thrifts that administer more than \$1 billion in trust assets, or service more than \$1 billion of loans for others, or have more than \$1 billion of recourse obligations or direct credit substitutes. In response to comments received on the proposed assessment rule published August 14, 1998, OTS has modified the rule to provide different assessment rates for the different types of activities. Thrifts will be assessed .0015 percent of amounts over the \$1 billion threshold for trust activities; .0030 percent for recourse obligations and direct credit substitutes over a \$1 billion threshold; .0010 percent for servicing for others on assets of \$1-to-\$10 billion, and .0005 percent on servicing over \$10 billion. The hourly rate OTS currently charges for trust examinations will be retained only for those institutions with smaller trust operations not subject to this new complexity component for trust operations.

**Condition** - OTS rates the condition of its institutions on a scale of one to five, with one being the best. Institutions with a rating of 4 or 5 will continue to pay a 50-percent premium over the asset-based assessment because they require more supervision. For the first time, 3-rated thrifts will pay a 25-percent premium in line with the additional supervision they require.

Since assessments are based on consolidated assets, a thrift that owns a subsidiary thrift will be charged on the basis of the combined assets of both. This recognizes the economies of scale in the supervision and assessment of consolidated companies through the decreased assessment rates for larger associations. This discount, however, will not apply to sister thrifts owned by a multiple savings and loan holding company.

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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](http://www.ots.treas.gov).