Department of the Treasury

Office of Thrift Supervision

Transmittal

RESCINDED

June 16, 1994 **Number: 108**

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The federal banking ... proposing the attach... achieve greater conformity in the rules for thrifts and banks on risk-based capital requirements for recourse arrangements and direct credit substitutes. As defined in the proposal:

- Recourse is the retention of any risk of loss associated with a transferred asset that exceeds a pro rata share of the institution's claim on the asset. Typically, recourse obligations arise when an institution transfers assets and retains an obligation to repurchase the assets, or to absorb losses due to a default of principal or interest or any other deficiency in the performance of the underlying obligor or some other party.

- A direct credit substitute is the assumption of any risk of loss associated with an asset or other claim that exceeds the savings association's pro rata share on the asset or claim. These include: financial guarantee-type standby letters of credit that support financial claims on the account party, guarantees and guarantee-type instruments backing financial claims, purchased subordinated interests or securities that absorb more than their pro rata share of losses from the underlying assets, and purchased loan servicing rights if the servicer is responsibile for losses associated with the loans being serviced or makes non-standard representations and warranties.

OTS is proposing to change only the requirements for financial guarantee-type standby letters of credit, guarantees, or other guarantee-type arrangements ...s of loss from the under- ...espects, the OTS treatment of recourse and direct credit substitutes would not be changed because the provisions of the current OTS capital rule are consistent with the proposals of the other agencies. Because the other federal banking regulatory agencies are adopting the current OTS approach, there would be more substantial changes to the capital requirements for commercial banks.

In addition, the agencies are publishing, as an advance notice of proposed rulemaking ("ANPR"), a preliminary "multi-level approach" that would use credit ratings from nationally recognized statistical rating organizations to measure relative exposure to risk in rated securitizations and would adjust the capital required to reflect the relative risk of the asset or transaction. The agencies are also requesting comment in the ANPR on the need for a separate multilevel approach for unrated securitizations and on how such a system could be designed.

The proposal was published in the May 25, 1994 edition of the *Federal Register*, Vol. 59, No. 100, pp. 27116–27141. Written comments must be received on or before July 25, 1994 and should be addressed to: Director, Information Services, Public Affairs Office, Office of Thrift Supervision, 1700 G Street, N.W., Washington, DC 20552.

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Office of Thrift Supervision

Attachment