RESCINDED

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Office of Thrift Supervision

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Attached for your information is a memorandum sent to the Office of Thrift Supervision's District Directors earlier this week. As the memorandum states, the Office has revised, for purposes of its capital regulation, its treatment of loans in process.

We will shortly forward to each institution amended instructions for the Thrift Financial Report to reflect this decision.

Jonathan L. Fiechter

Principal Senior Deputy Director,
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August 7, 1990

MEMORANDUM FOR THE DISTRICT DIRECTORS

FROM: JLF Jonathan L. Fiechter
Principal Senior Deputy Director

SUBJECT: Minimum Capital Requirements: Treatment of Loans In Process

We have revised the treatment of loans in process (LIPs) under the risk-based capital standards. (LIPs represent the undisbursed portion of loans.) Based on a review of the risks of LIPs and the treatment afforded LIPs by the Federal bank regulatory agencies, we have decided to treat LIPs, for capital adequacy purposes, as off-balance sheet obligations. Like other off-balance sheet obligations, LIPs are first converted to on-balance sheet "equivalents" and then placed into the appropriate risk-weight category.

The off-balance sheet conversion factor will vary depending on the language of the agreement. Commitments with an original maturity exceeding one year (unless they are unconditionally cancelable) are converted at 50%; all other commitments (including those unconditionally cancelable) are converted at 0%.

There are two exceptions to this treatment. First, when savings associations charge interest based on the full amount of the loan (including both the disbursed and undisbursed portions), associations must "gross up" the LIP with their on-balance sheet assets. Second, if the LIP is, in effect, a direct credit substitute, savings associations must use the 100% conversion factor.

We will amend the instructions to the Thrift Financial Report to reflect this decision.