Press Releases

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OTS 96-27 - Chief Counsel Opinion Stating Thrifts May Buy Neighborhood Housing Services of America Securities

Office of Thrift Supervision

News Release

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THRIFTS MAY BUY NHSA SECURITIES SAYS OTS CHIEF COUNSEL OPINION

WASHINGTON, D.C., April 23, 1996 -- Federal thrift institutions may purchase securities backed by loan pools organized by Neighborhood Housing Services of America (NHSA), Chief Counsel Carolyn Buck of the Office of Thrift Supervision (OTS) has stated in a legal opinion. She said the opinion may encourage thrift institutions to financially support improvements in housing and neighborhood conditions within their communities. Such support is given a favorable weighting as part of examinations conducted under the Community Reinvestment Act (CRA).

NHSA is a private non-profit corporation that securitizes low-interest loans to low- and moderate-income borrowers. It purchases many of its loans from NeighborWorks organizations whose mission is to increase lending in low- and moderate-income neighborhoods.

Ms. Buck stated that federal thrifts may purchase NHSA securities free from any percentage-of-assets limitations, provided the underlying loans are secured by properties that are utilized for residential housing. The securities, however, are subject to the OTS rule on loans to one borrower (LTOB).

The specific NHSA instruments in which they may invest are: rehabilitation and mortgage loan securities backed by owner-occupied 1-to-4 unit single-family residences; other mortgage loan securities backed by mortgages on owner-occupied 1-to-8 unit single family residences; multifamily loan securities backed by mortgages on 5-to-40 unit properties; and housing development loan securities backed by short-term loans for interim financing to cover acquisition, pre-development and/or development activities on housing projects.

The OTS LTOB rule generally restricts savings association investments in securitized loans purchased from a single source -- whether sold with or without recourse -- to 15 percent of the association's capital, as defined for LTOB purposes.

In situations where the association determines that each loan meets its underwriting standards without reference to any recourse commitment issued by the seller, however, the association may elect to apply the LTOB limits directly to the underlying loans, rather than to the securities, Ms. Buck wrote.

"This elective alternative LTOB treatment of securitized loans is based on a recognition that the process of securitizing loans generally does not detract from their investment quality. In fact, loans are often rendered more investment worthy when pooled and securitized due to risk spreading, enhanced liquidity, overcollateralization, and any related recourse commitment from the seller."

Moreover, a savings association will generally receive positive consideration on its CRA examination if the purchased NHSA securities are backed by loans that benefit the association's assessment area or a broader statewide or regional area that encompasses it, Ms. Buck said.

For risk-based capital treatment, the securities will be placed in the 50-percent risk-weight category if they are secured by "qualifying mortgage loans" or certain "qualifying multifamily mortgage loans," she said. All other NHSA securities fall into the 100-percent risk-weight category.

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