

Press Releases

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OTS 01-20 - OTS Would Simplify Certain Capital Requirements and Revise Liquidity Standards

Office of Thrift Supervision

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OTS Would Simplify Certain Capital Requirements And Revise Liquidity Standards

WASHINGTON - The Office of Thrift Supervision (OTS) today proposed a rule change to reduce certain capital burdens and separately issued an interim final rule that would conform to recent changes in the law by eliminating a four percent liquidity requirement and replacing it with a general requirement that thrift institutions maintain sufficient liquidity.

The biggest impact of the proposed capital rule changes would be for one- to four-family residential first mortgage loans when the amount of the loan is valued at 80 to 90 percent of the collateral. OTS proposes shifting the maximum loan-to-value ratio from 80 percent at origination to less than 90 percent at all times to qualify for a 50 percent reduction in the standard capital charge. To qualify, the loans would continue to have to be not more than 90 days delinquent and be prudently underwritten.

When the final rule is issued, OTS said it would expect thrifts to periodically review loans structured with negative amortization features and loans that have the potential for negative amortization to ensure the required loan-to-value ratios are met. OTS would require thrifts to reassign a 100 percent risk weight to loans that negatively amortize to a loan-to-value ratio of 90 percent or more.

OTS also proposed to eliminate the requirement that a thrift must deduct from total capital the portion of a land loan or non-residential construction loan that has a loan-to-value ratio of more than 80 percent.

"Our research suggests that residential loans are generally subject to a disproportionately high capital burden, relative to other types of loans," OTS Director Ellen Seidman said. "These steps will provide thrifts with greater regulatory equity with commercial banks in thrifts' major line of business - residential mortgage lending." The economic research was posted on OTS's web site this week. Other elements of the capital rule proposed today would conform other aspects of OTS's capital rules to those of other regulators by:

- eliminating the interest rate risk component of the risk-based capital regulation;

- increasing the risk weight for high quality, stripped mortgage-related securities from 20 percent to 100 percent;
- modifying the definition of OECD-based country; and
- conforming OTS treatment of reserves for loan and lease losses.

OTS also issued an interim final rule today eliminating the requirement that each savings association maintain an average daily balance of liquid assets of at least four percent of its liquidity base. The change was made to implement a recent change to the Home Owners' Loan Act. The rule would, nevertheless, require each savings association and service corporation to maintain sufficient liquidity to ensure its safe and sound operation.

Capital – <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2001-20a.pdf>

Liquidity - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2001-20b.pdf>

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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's 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 visit the OTS web page at www.ots.treas.gov.