

Transmittal

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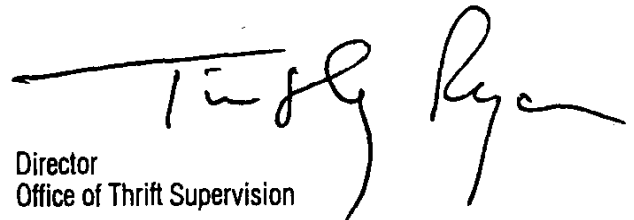
Attached is a final rule that would change the capital treatment of certain conservatively underwritten residential construction loans under the risk-based capital regulation of the Office of Thrift Supervision (the "OTS"), 12 C.F.R. Part 567, § 567.6. The rule would place certain conservatively underwritten residential construction loans in the 50 percent risk-weight category in computing associations' risk-based capital requirements. Such loans are currently in the 100 percent risk-weight category. This regulatory amendment will help to ensure that credit is available for creditworthy builders to construct homes for individuals who have made substantial financial commitments to such projects.

To qualify for the 50 percent risk-weight category, the loans must satisfy designated prudential criteria in addition to generally applicable conservative underwriting standards ("residential bridge loans"). These loans must be made in accordance with sound lending principles to builders with substantial project equity for the construction of pre-sold, 1-4 family residences. Before making the loan, the lending thrift must obtain documentation from a permanent lender demonstrating that the home buyer intends to purchase the residence and has the ability to obtain a sufficient qualifying mortgage loan. The home purchaser also must have made a

substantial earnest money deposit, generally expected to be at least 3 percent of the sales price. The loan must not exceed 80 percent of the sales price and must be secured by a first lien on the lot and house under construction. Furthermore, the lending thrift must retain sufficient undisbursed loan funds throughout the construction period to ensure project completion. Finally, the builder must incur a significant percentage of direct costs, generally expected to be 10 percent of the sales price, before any drawdown on the loan.

Qualifying loans by national banks and savings associations to individuals to fund construction of their own homes are already included in the 50 percent category under the risk-based capital rules of the Office of the Comptroller of the Currency ("OCC") and the OTS. The proposed amendment would give parallel treatment to qualifying residential bridge loans made directly to builders for the construction of individuals' homes. The other federal banking agencies are considering adoption of similar capital treatment for these types of loans.

The rule is published in the *Federal Register*, Vol. 57, No. 71, pp. 12706-12709.


Director
Office of Thrift Supervision

Attachment