Department of the Treasury
Office of Thrift Supervision

Transmittal

October 17, 1994

Number: 117

The Office of Thrift Supervision is proposing to drop or modify its Monthly Median Cost of Funds index, one of several indices used to change interest rates on Adjustable Rate Mortgages (ARMs).

In the attached notice and request for comment, OTS cites a recent survey indicating relatively few ARM loans are made with rates tied to the monthly index, and notes other indices are currently available to take its place. OTS asks for public comment on whether continuing the index is worth its $400,000 annual cost to the industry and up to $100,000 annual cost to the agency.

OTS believes the Eleventh District Cost of Funds Index, published by the Federal Home Loan Bank of San Francisco, and OTS' Quarterly Average Cost of Funds Index would be acceptable substitutes if OTS' monthly index is discontinued. Both indices are readily available for adjusting ARMs and have demonstrated a strong correlation over time to OTS' monthly index.

An alternative to dropping the index would be to reduce the reporting burden on the industry by using a smaller, randomly selected sample of institutions that would rotate periodically. Another option would be for OTS to increase the number of reporting institutions by including OTS-regulated institutions that are insured by the Bank Insurance Fund (BIF). That would address the possibility that the monthly index is no longer widely used because it is calculated from a decreasing number of OTS-regulated, SAIF-insured thrifts.

The notice was published in the October 17, 1994 edition of the *Federal Register*, Vol. 59, No. 199, pp. 52362-52369. Written comments must be received on or before November 16, 1994, and should be addressed to: Director, Information Services, Office of Thrift Supervision, 1700 G Street, N.W., Washington, DC 20552.

Jonathan L. Fiechter
Acting Director
Office of Thrift Supervision

Attachment