Department of the Treasury
Office of Thrift Supervision

Transmittal

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Originated mortgage servicing rights will be included in Tier 1 (core) capital, subject to limits, under the attached interim rule adopted by the Office of Thrift Supervision (OTS) and the other federal banking agencies.

Originated mortgage servicing rights refer to the situation in which a lending institution has sold a loan it originated but retained the obligation to service the loan.

Under the rule, thrifts and banks will include originated mortgage servicing rights related to loans owned by others in regulatory capital the same as they have previously included such rights purchased from another company.

The rule is consistent with a recommendation of the Federal Financial Institutions Examination Council (FFIEC) and was issued in response to the Financial Accounting Standards Board's issuance of Statement 122, "Accounting for Mortgage Servicing Rights," which eliminated the accounting distinction between originated and purchased mortgage servicing rights. Generally accepted accounting principles (GAAP) now require originated mortgage servicing rights to be capitalized as balance sheet assets, a treatment previously required for purchased mortgage servicing rights. Institutions must adopt SFAS No. 122 for regulatory reporting and capital puirposes for fiscal years beginning after December 15, 1995, but may adopt it as early as June 30, 1995.

Originated mortgage servicing rights relating to loans owned by others will be subject to the limitations currently imposed on purchased mortgage servicing rights.

Under the agencies' interim rules, capitalized mortgage servicing rights (both purchased and originated) will be included in Tier 1 capital at the lesser of 90 percent of fair value (adjusted quarterly) or 100 percent of book value (net of any valuation allowance). The quarterly valuations of the fair value of originated mortgage servicing rights would be based on SFAS No. 122 and regulatory guidance previously issued by OTS for determining the fair value of purchased mortgage servicing rights.

In addition, the aggregate amount of purchased and originated mortgage servicing rights and purchased credit card relationships that may be recognized for regulatory capital purposes will be limited to no more than 50 percent of Tier 1 (core) capital. Under the interim rule, however, an association may elect to reduce its disallowed amount of originated mortgage servicing rights by the amount of any associated deferred tax liability. This will help prevent institutions at or above the 50 percent limit from being required to deduct a greater amount from regulatory capital than SFAS 122 includes in GAAP capital.

OTS and the other agencies have asked for comment on a number of issues to be incorporated in the final rule on capital treatment of mortgage servicing rights.

The interim final rule was published in the August 1, 1995, edition of the *Federal Register*, Vol. 60, No. 147, pp. 39225–39233. Written comments must be received on or before October 2, 1995, and should be addressed to: Chief, Dissemination Branch, Records Management and Information Policy Division, Office of Thrift Supervision, 1700 G Street NW, Washington, DC 20552.

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Attachment