

Regulatory Bulletin

Handbook: Thrift Activities
Subjects: Capital Adequacy; Asset Liability/Management

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RB 3b

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Policy Statement on Growth for Savings Associations

Summary: This Bulletin rescinds Regulatory Bulletin 3a-1. It identifies statutory growth restrictions, sets forth policy growth restrictions for savings associations not subject to statutory restrictions, and reminds Regional Directors of their overall growth oversight responsibilities.

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Statutory Growth Restrictions

The Home Owners' Loan Act (HOLA) and the Federal Deposit Insurance Act (FDIA) provide the Office of Supervision (OTS) with authorities and responsibilities to restrict growth for savings associations that (1) are undercapitalized, (2) fail to meet a prescribed regulatory standard, or (3) take excessive risks or pay excessive rates.

1. Undercapitalized Savings Associations

The capital standards section of the HOLA, § 5(t)(6)(B),¹ requires the OTS to prohibit asset growth of undercapitalized savings associations, except as provided under limited circumstances. Also, the prompt corrective action section of the FDIA, § 38,² requires the federal banking agencies to impose mandatory sanctions on undercapitalized insured depository institutions, which may include asset growth restrictions.

1. 12 USC § 1464(t)(6)(B).

2. 12 USC § 1831o.

2. Savings Associations That Fail To Meet A Prescribed Regulatory Standard

The standards for safety and soundness section of the FDIA, § 39,³ requires the federal banking agencies to prescribe for insured depository institutions safety and soundness standards relating to, among other things, asset growth. Under this authority, OTS regulation 12 CFR Part 570, "Submission and Review of Safety and Soundness Compliance Plans and Issuance of Orders to Correct Safety and Soundness Deficiencies," requires savings associations that fail to meet a prescribed Part 570 regulatory standard to submit an acceptable compliance plan that shall specify the steps the association will take to correct the failure.

Among other things, Part 570 provides that the OTS may restrict the asset growth of a savings association that (1) fails to submit or implement an acceptable compliance plan, or (2) experienced extraordinary growth during the 18-month period before the date on which it failed to meet a safety and soundness standard. Regional Directors are to determine extraordinary growth on a case-by-case basis dependent on a number of factors particular to each association, such as its demonstrated management

3. 12 USC § 1831p-1.

capabilities, quality of assets, capital adequacy, interest-rate-risk profile, earnings, and operating controls and procedures. Extraordinary growth may also occur in specific asset categories due to changes in the overall asset mix.

3. Savings Associations Taking Excessive Risks or Paying Excessive Rates

The excessive risks or rates capital standards section of the HOLA, § 5(t)(6)(D),⁴ provides that the OTS Director may restrict the asset growth of any savings association that the Director determines is taking excessive risks or paying excessive rates for deposits.

Policy Growth Restrictions for Savings Associations Not Subject to Statutory Growth Restrictions

On the basis of safety and soundness concerns, Regional Directors generally should impose growth restrictions on a savings association which is not subject to a statutory growth restriction, but is in a "troubled condition."⁵ In these cases, Regional Directors may prohibit any growth or allow limited growth, such as an increase in assets in an amount not to exceed net interest credited on deposit liabilities (or earnings credited on share accounts) during a calendar quarter. Where it

4. 12 USC § 1464(t)(6)(D).

5. As defined in 12 CFR § 574.9(a)(5)(i).

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is clearly documented to be reasonable in the context of a troubled association's operations and does not significantly increase the association's risk profile, Regional Directors may allow more growth appropriate to the circumstances. Regional Directors are to document their growth determinations in association regulatory plans, including the bases for their decisions.

Regional Director Responsibilities

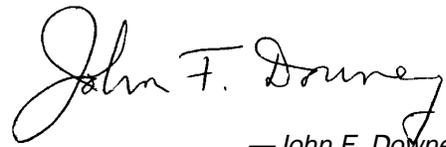
While growth by itself does not necessarily cause safety and soundness

problems, any unplanned or poorly managed growth is a cause for supervisory concern. Regional Directors accordingly must take steps to ensure that the growth of all savings associations is prudent, adequately capitalized, and directed and managed in a safe and sound manner in the interests of the deposit insurance fund.

Regional Directors are to ensure that growth is monitored through quarterly Thrift Financial Reports (TFR). The growth and percentage change indicators in the Uniform Thrift Per-

formance Report section of the TFR provide early warning growth signs and may indicate that further investigation is needed. When necessary, Regional Directors may request additional financial information from an association.

While TFR quarter-end data normally is used to determine growth, Regional Directors may choose to use average total assets if necessary to prevent manipulation of the TFR quarter-end data.


—John F. Downey
Executive Director, Supervision