

Press Releases

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OTS 97-29 - Lower Thrift Liquidity Minimums Proposed by OTS

Office of Thrift Supervision

NEWS

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LOWER THRIFT LIQUIDITY MINIMUMS PROPOSED BY OTS

WASHINGTON, D.C., May 14, 1997 -- The Office of Thrift Supervision (OTS) today proposed to lower liquidity requirements for savings associations within the range permitted by current law. OTS' plan would lower the minimum liquid asset requirement from 5 to 4 percent of the institution's liquidity base.

The changes, said OTS, would increase regulatory flexibility and reduce the burden on savings associations. The proposed rule change is part of OTS' ongoing effort to review and streamline its regulations.

Even with the proposed change, OTS said its regulations and the minimum liquidity statute and its list of qualifying liquid assets had become obsolete in today's financial marketplace. OTS has urged Congress to repeal the minimum liquidity law.

The proposal notes that simply meeting the minimum liquidity requirement does not automatically mean a thrift institution has sufficient liquidity for safe and sound operation. The proposed rule would add a separate requirement that thrifts must maintain sufficient liquidity to ensure safe and sound operations.

OTS said a sufficient level of liquidity may vary from institution to institution depending on a thrift's overall asset/liability structure, the condition of the market, the activities of financial service competitors and the requirements of its own deposit and loan customers. OTS examiners take all these factors into account in assessing whether an institution has sufficient liquidity. Other banking agencies use the same approach.

The Home Owners' Loan Act requires thrift institutions to hold between 4 and 10 percent of an institution's liquidity base in cash and short-term instruments. The base is defined as withdrawable funds and any money the institution has borrowed that must be paid back on demand or within one year.

The statutory liquidity requirement was originally designed as a mechanism for regulating the supply of money available for housing loans. Over the years, the federal thrift regulator has adjusted the minimum liquidity requirement to satisfy changing economic conditions, raising the requirement when mortgage money was abundant and lowering it when mortgage money was scarce.

Circumstances have changed dramatically since 1950 when the first liquidity law was enacted. In recent decades, an active secondary market for home loans has developed, which has become the primary source of funding for home loans. By selling their mortgages to investors in the secondary market, housing lenders can quickly and easily turn long-term, fixed-rate home loans into cash.

Also, adjusting liquidity requirements for thrifts no longer has much effect on stimulating lending because so many mortgages are made by commercial banks and mortgage bankers, none of which has comparable statutory liquidity requirements.

In a notice of proposed rulemaking published in today's Federal Register, OTS said it planned to lower the liquid asset requirement from 5 to 4 percent of the liquidity base, the lowest allowed by law. In addition, OTS proposed to eliminate a separate limit that requires thrifts to hold assets equal to 1 percent of a thrift's liquidity base in cash or short term liquid assets. Additionally, OTS would streamline the calculations used to measure compliance with liquidity requirements, expand the types of assets that can be considered liquid to conform with provisions of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and reduce the liquidity base by modifying the definition of net withdrawable account.

OTS will accept comments on its proposed rule for the next 60 days.

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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' 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.

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