

Press Releases

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OTS 98-61 - OTS Proposes More Equitable Assessments on Regulated Thrifts

Office of Thrift Supervision

NEWS

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OTS Proposes More Equitable Assessments On Regulated Thrifts

WASHINGTON, D.C., Aug. 13, 1998 - The Office of Thrift Supervision (OTS) today proposed a revised formula that would bring the assessments on savings institutions under its supervision more in line with the actual cost of regulating them. The proposal would minimize the current situation in which some thrifts, in effect, subsidize the cost of regulating others.

In the aggregate, the proposed changes should initially result in lower assessments for healthy institutions that are not engaged in large amounts of off-balance sheet activities - the traditional thrifts. The agency would raise the assessments on most thrifts that have significant off-balance sheet activities, such as administering trusts and servicing loans for others. These activities do not now figure into the assessment base.

OTS anticipates having a revised assessment schedule in place for the first assessment of 1999. Since the agency receives no tax dollars, it relies on assessments on the industry to fund its operations

"We want to keep our assessment rates as low as possible while providing the agency the resources essential to effective supervision of a changing industry," said OTS Director Ellen

Seidman. "We also want to more closely tailor rates to the increased costs of supervising certain types of institutions." She also noted that the agency's revenues in the future would increase or decrease as the size, activities and condition of institutions under its supervision change.

To that end, OTS proposes to adopt an assessment schedule incorporating three components: the size of the institution, its condition, and the complexity of its operations.

Asset Size - OTS' current assessment is set up on a sliding scale formula in which rates decrease as an institution's assets increase to reflect economies of scale. This approach would remain as one component of the proposed plan, but would be adjusted to include certain fixed costs that are nearly the same for all institutions, such as the cost of drafting regulations and policies and the basic cost of conducting examinations. OTS' proposal would incorporate some of these fixed costs as a fixed charge in the assessment schedule. Existing small savings institutions that have never had assets over \$100 million and that remain under this threshold would have the option of paying the lesser of assessments calculated under the new or old formulas. New institutions formed in the future would not get the same option. OTS requests comment on whether that option for existing small institutions should be phased out over time.

Condition - OTS rates institutions on a scale of one to five, with one being the best. The proposal would continue the current practice of charging 4- and 5-rated institutions a 50-percent premium over the asset-based assessment because they require more supervision, and, for the first time, would impose a 25-percent premium on 3-rated thrifts, which also require additional supervision.

Complexity - OTS must examine and supervise activities involving off-balance sheet assets to ensure the safety and soundness of thrift institutions, but such off-balance sheet assets currently are not part of the assets that make up the assessment base. This can result in substantial costs to OTS that are now shared by all institutions. In effect, institutions with minimal or no off-balance sheet assets subsidize the cost of supervising these other institutions. Therefore, OTS is proposing to charge a higher assessment to thrifts that administer more than \$1 billion in trust assets, or service more than \$1 billion of loans for others, or have more than \$1 billion of recourse obligations or direct credit substitutes. OTS is also looking at whether it should address the greater supervisory cost associated with commercial and non-residential mortgage loans.

Consolidation - The agency is asking for comments on how to treat fairly thrifts that own other thrifts. Since assessments are based on consolidated assets, a thrift that owns a subsidiary thrift would be charged on the basis of the combined assets of both.

Under the proposed regulation, which is scheduled to be published in the Federal Register on Friday, Aug. 14, 1998, assessments would continue to be made semi-annually. OTS welcomes comments for 60 days following publication.

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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. For copies of news releases and other documents call PubliFax at 202/906-5660, or visit the OTS web page at www.ots.treas.gov.