

Press Releases

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OTS 00-82 - Agencies Propose Revision of Capital Rules for the Treatment of Residual Interests

Office of Thrift Supervision

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For further information

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Contact: Paul Lockwood

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Agencies Propose Revision of Capital Rules for the Treatment of Residual Interests

Board of Governors of the Federal Reserve System
Joint Release Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Office of Thrift Supervision

OTS 00-82

FOR IMMEDIATE RELEASE September 27, 2000

AGENCIES PROPOSE REVISION OF CAPITAL RULES FOR THE TREATMENT OF RESIDUAL INTERESTS

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision today requested public comment on proposed revisions to their capital rules for residual interests in asset securitizations or other transfers of financial assets. The proposed rule was published in today's Federal Register.

Comments are due December 26, 2000.

The proposal by the agencies addresses concerns with residual interests raised in the December 1999 Interagency Guidance on Asset Securitization. In that guidance, the agencies expressed concern with institutions that were holding inadequate capital against residual interests, were valuing the assets improperly, and were holding excessive amounts of these assets in relation to capital. In that document, the agencies indicated that they were considering limiting the amount of certain residual interests recognized in regulatory capital.

The capital proposal is intended to apply to balance-sheet assets retained by a seller (or transferor) that are structured, through subordination provisions or other credit enhancement

techniques, to absorb more than a pro rata share of credit loss related to the transferred assets.

The agencies believe that these residual interests expose institutions to concentrated credit risk, and may present valuation and liquidity concerns. Recent experience has shown that high concentrations of such residual interests can threaten the safety and soundness of insured depository institutions.

The proposed treatment would amend the leverage and risk-based capital requirements by:

- Requiring that "dollar-for-dollar" risk-based capital be held against residual interests from securitization activities or other transfers of financial assets that are retained on the balance sheet, even if the amount exceeds the full capital charge typically held against the assets transferred.
- Restricting undue concentrations in such residual interests by placing them within the 25 percent Tier 1 capital sublimit already established for nonmortgage servicing assets and purchased credit card relationships. Any amounts above this limit will be deducted from Tier 1 capital.

Federal Register Notice - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2000-82a.pdf>

Media Contacts:

Federal Reserve: David Skidmore (202) 452-2955

OCC: Sam Eskenazi (202) 874-5770

FDIC: Phil Battey (202) 898-6993

OTS: William Fulwider (202) 906-6913

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The Office of Thrift Supervision (OTS), an office of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's 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 or other documents visit the OTS web page at www.ots.treas.gov.