

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Part 3

[Docket No. 97-22]

RIN 1557-AB14

FEDERAL RESERVE SYSTEM

12 CFR Parts 208 and 225

[Regulations H and Y; Docket No. R-0985]

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 325

RIN 3064-AB31

DEPARTMENT OF THE TREASURY

Office of Thrift Supervision

12 CFR Part 567

[Docket No. 97-86]

RIN 1550-AB11

Risk-Based Capital Standards;
Recourse and Direct Credit
Substitutes; Correction

AGENCIES: Office of the Comptroller of the Currency, Treasury; Board of

Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; and Office of Thrift Supervision, Treasury.

ACTION: Joint notice of proposed rulemaking; correction.

SUMMARY: 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 (collectively, the agencies) are issuing a correction to its joint notice of proposed rulemaking published on November 5, 1997 to clarify three of the tables contained in the preamble to the rule. The proposed rule would revise the agencies' risk-based capital standards to address recourse and direct credit substitutes.

FOR FURTHER INFORMATION CONTACT: Mary H. Gottlieb, Office of Thrift Supervision, (202) 906-7135; or any of the persons listed in the joint notice of proposed rulemaking.

SUPPLEMENTARY INFORMATION: On November 5, 1997, the agencies published a joint notice of proposed rulemaking concerning recourse and direct credit substitutes. 62 FR 59944 (November 5, 1997). It has been determined that three of the tables appearing in the preamble at 62 FR 59958-59959 are in need of clarification. These tables, entitled

"Residential Mortgage-Backed Securities," "Asset-Backed Securities," and "Commercial Mortgage-Backed Securities," are being reprinted in their entirety at the end of this correction document.

Dated: November 10, 1997.

Jessie Gates,*Federal Register Liaison, Office of the Comptroller of the Currency.*

By order of the Board of Governors of the Federal Reserve System, November 10, 1997.

Barbara R. Lowrey,*Associate Secretary of the Board.*

Dated at Washington, D.C., this 12th day of November, 1997.

Federal Deposit Insurance Corporation.

Robert E. Feldman,*Executive Secretary.*

Dated: November 7, 1997.

By the Office of Thrift Supervision.

Mary H. Gottlieb,*Federal Register Liaison Officer.*

The corrected tables follow:

BILLING CODE 4810-33-P, 6210-01-P, 6714-01-P, 6720-01-P

Residential Mortgage-Backed Securities

Pool Type ^{1,2}	"Rating Benchmark" Prior Credit Enhancement Required for "A" Rating	Pool Standards
30-year loans	1.6 percent	Pools include at least 400 loans for each pool type. No borrower concentration over 3 percent for each pool type.
15-year loans	0.8 percent	
Adjustable Rate Mortgages (ARMs) (1,5), (2,6)	2.4 percent	
Hybrid loans (fixed-to-variable)	2.4 percent	
Balloon loans	2.0 percent	
	<p>For no documentation and reduced documentation loans, multiply the above enhancements by 2. For condominiums, two-to-four family, and cooperative apartments, multiply the above enhancements by 2. For B and C loans, multiply the above enhancements by 3. For loan-to-value (LTV) ratios equal to or below 80 percent: -- Use above enhancements. -- Multiply above enhancements by 2, if there is private mortgage insurance (PMI) that brings loans below 80 percent. For LTV ratios above 80 percent, multiply the above enhancements by 4. For the first five years of the securitization, the above enhancement requirement, as a percentage of the outstanding principal, remains fixed. For years six through ten, the enhancement requirement would be multiplied by 0.75. Beyond ten years, the enhancement would be multiplied by 0.5^{3,4}.</p>	
<p>1 For positions that represent less than 10 percent of the size of the underlying pool of loans, add 20 percent to the enhancement level. 2 For closed-end second mortgage securities, determine the LTV ratio of the loans in the security and apply the enhancement requirements for the underlying collateral. In addition, change the 15-year enhancement requirement to 1.6 percent due to increased risk of security. 3 The reduction in the multiplier over time reflects the reduced risk of the mortgage portfolio due to seasoning. 4 For a six-year old 15-year mortgage-backed security backed by B and C loans that have LTV ratios above 80 percent, the enhancement would be 0.8 percent $\times 3 \times 4 \times 0.75 = 7.2$ percent.</p>		

Asset-Backed Securities

Pool Type ¹	"Rating Benchmark" Prior Credit Enhancement Required for "A" Rating	Pool Standards
Credit Cards ²	The higher of 6 percent or 1.2 times lagged charge-off rate ³ .	Enhancement has access to excess spread.
Auto Loans Prime (A type) Sub-prime (B, C, and D types)	7.0 percent The higher of 15.0 percent or 3 times net expected loss rate ⁴ .	Sellers of automobile loans must have at least three years of historical information. Enhancement has access to excess spread.
Trade Receivables	12.0 percent per loan pool ⁵ (if all sellers of trade receivables are rated 1 or 2) 18.0 percent per loan pool ⁵ (if any seller of trade receivables is rated 3 or 4 and no lower than 4)	Pools may not have seller concentrations above 5 percent of pool amount. Based on Federal Reserve Board rating criteria for trade receivables, each seller must be rated between 1 and 4.
	All of the above enhancements will remain fixed as a percentage of outstanding principal, with a floor of 3 percent of original principal.	For credit cards and auto loans, pool must be randomly selected and nationally-diversified.
<ol style="list-style-type: none"> 1 For positions that represent less than 10 percent of the size of the underlying pool of loans, add 20 percent to the credit enhancement level. 2 Credit cards include home equity lines of credit that are similar to credit card loans. 3 Lagged charge-off rate is based on the monthly average of past six month's charge-offs, multiplied by twelve, then divided by the average outstanding balance from a year ago. 4 Net expected loss rate is the monthly average of last quarter's gross default amount netted against recoveries, multiplied by twelve, then divided by the average outstanding loan balance for the last quarter. 5 Overcollateralization amount would count toward credit enhancement. 		

Commercial Mortgage-Backed Securities

Pool Type ¹	"Rating Benchmark" Prior Credit Enhancement Required for "A" Rating	Pool Standards
Office	26.0 percent	Debt-service coverage at least 1.25
Regional Mall	10.0 percent	Debt-service coverage at least 1.35
Industrial/Anchored Retail	13.0 percent	Debt-service coverage at least 1.35
Multifamily	17.0 percent	Debt-service coverage at least 1.25
	<p>The above enhancements are for pools of loans with loan-to-value ratios less than or equal to 70 percent. For pools of loans with greater than 70 percent loan-to-value ratio, multiply the above enhancements by 1.5.</p> <p>For pools with property quality below the B level, multiply the above enhancements by 1.5.</p> <p>The above enhancements will remain fixed as a percentage of outstanding principal, with a floor of 3 percent of original principal.²</p>	<p>For each type of pool above:</p> <p>-- No borrower concentration over 5 percent of pool amount.</p> <p>-- The amortization schedule does not exceed 25 years.</p>
<p>¹ For positions that represent less than 10 percent of the underlying pool of loans, add 20 percent to the credit enhancement level.</p> <p>² For example, the enhancement for a security containing regional mall loans with an 80 percent LTV ratio and B quality property would be 10 percent x 1.5 x 1.5 = 22.5 percent.</p>		

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6720-01-C