

Press Releases

October 29, 1996

OTS 96-68 - Downey Says Enhanced Thrift Charter Closer to "Ideal"
Community Bank Charter 2

Office of Thrift Supervision

News Release

FOR RELEASE at 9:30 a.m. EST

For further information

Tuesday, October 29, 1996

Contact: William Fulwider

OTS 96-68

202/906-6913

DOWNEY SAYS ENHANCED THRIFT CHARTER CLOSER TO 'IDEAL' COMMUNITY BANK CHARTER

ATLANTA, GA., Oct. 29, 1996 - New commercial and consumer lending authority recently added to the traditional powers of the federal thrift charter has made it "close to an ideal community bank charter," a senior official of the Office of Thrift Supervision (OTS) declared today.

In the quest in Congress next year for the so-called "modern charter," the "good features of the recently enhanced thrift charter should not be destroyed. The focus must be on a charter that allows both thrifts and banks to compete effectively in the financial services market place, John Downey, executive director for supervision at OTS, told the annual convention of America's Community Bankers, the thrift trade group.

With their new authority, said Downey, "federal thrifts can remain a major provider of housing finance and are in a position to originate the same amount of consumer and small business loans as the typical commercial bank does today. In effect, today's federal thrift charter provides (the industry) the opportunity to meet a much broader range of community lending needs."

A bad debt tax provision has been eliminated, so thrifts no longer have to retain at least 60 percent of their assets in narrowly defined mortgage-related products due solely to tax considerations. Contained in the new law that resolved the funding problems of the thrift insurance fund is a provision that allows thrifts to increase their commercial lending portfolios for small businesses from 10 percent to 20 percent, thus giving thrifts the opportunity to help meet the needs of an underserved market. Thrifts also gained authority to count all credit card and student loans toward meeting the qualified thrift lender (QTL) test that distinguishes a thrift from a bank. Thrifts now have lending flexibility comparable to banks, Downey said.

Traditional thrift powers include: holding company flexibility by which a nonbanking entity may own a thrift; service corporation flexibility through which thrifts may sell insurance and engage

in other business activities that are either limited for banks or denied them; and the authority to branch inter- and intrastate free of state law restrictions.

This week, OTS director Nicolas Retsinas will send a letter to the chief executive of each thrift regulated by OTS highlighting the expanded lending authority granted under the new laws and reinforcing Downey's views on the thrift charter. Attached to the letter will be a 10-page staff analysis of the recent changes to the laws governing thrift operations.

In the upcoming debate on charter modernization, Downey said that any changes to the thrift or bank charters should:

- Strengthen or at least maintain the safety and soundness of the deposit insurance system and the institutions;
- Increase the efficiency and competitiveness of the U.S. banking system in financial markets;
- Support reliance on market-based incentives to guide choices on strategies and business activities for meeting customer needs;
- Provide flexibility for institutions to respond to changes in market conditions, technology and customers' financial needs;
- Reduce current regulatory burdens and supervisory costs on institutions and their customers; and
- Give institutions a choice between state and federal, mutual and stock form of ownership.

Institutions should decide which form of ownership is best for the conduct of their business and make the choice accordingly, Downey said.

Thrift Industry's Financial Condition Is Strong

He noted that the thrift industry is now healthy. Compared to five years ago when the industry had strung two profitable quarters together for the first time since 1985 and the return on assets was an average 13 basis points, the industry has now been profitable ever since - 20 quarters, in fact. The average return is nearly 100 basis points. Five years ago, 475 thrifts were designated as significant problem institutions, and now only 29 fall into that category.

At the same time, OTS, the industry's prime regulator, is "a more effective, streamlined and efficient supervisory agency," Downey said, adding that "we want to make sure we do not needlessly impede" the industry's progress. "We're committed to reducing the burdens on the industry."

Downey cited a number of regulatory burden reduction steps that have been taken, are under way, or are contemplated at OTS to streamline the examination process, reporting requirements and regulations. He noted, for example, that OTS has developed a prototype now being tested that will facilitate a more automated examination process using technology to perform significant pieces of the exam off-site. This approach is expected to minimize disruptions at the institution during the on-site portion of the examination.

###

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 or other documents call PubliFax at 202/906-5660, or visit the OTS web page at www.ots.treas.gov.

