WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) published a proposed rule in today's Federal Register that would revise part 1 of its regulations. Part 1 contains standards for investment securities activities by national banks. The proposed rule reorganizes the regulation by placing related subjects together, clarifying areas where the rules are unclear and confusing, and updating various provisions to address market developments and to incorporate significant OCC interpretations, judicial decisions and statutory amendments.

The proposed rule is part of the OCC's regulatory review project to modernize and simplify OCC regulations and reduce unnecessary regulatory burden. This proposed regulation marks the 24th regulation that the OCC has acted on so far as part of its regulatory review program.

The OCC welcomes comments on all aspects of this proposed regulation, particularly the issues specifically noted in the Preamble. A summary of the most significant proposals follows.

TYPES I, II AND III SECURITIES

The proposed rule would retain the existing designations for Type I, II and III securities. Type I securities consist of obligations of the United States and general obligations of state and local governments. Type II securities are obligations of certain federal agencies, such as the Tennessee Valley Authority, obligations of multilateral and international development banks, and certain municipal bonds issued for housing, dormitory or university purposes. Type III securities are other marketable obligations of investment quality.

TYPE IV SECURITIES

The proposed rule would implement federal legislation that removed quantitative limits on bank investments in residential and commercial mortgage and small business-related securities. The Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRI) supplemented the Secondary Mortgage Market Enhancement Act of 1984 (SMMEA) to remove statutory limits on national banks' purchase of certain mortgage- and small business-related securities, subject to regulations prescribed by the OCC. The OCC proposes to call these securities Type IV to differentiate them from Types I, II and III securities.
Today's rule also proposes safety and soundness standards for Type IV securities. For example, under the proposal, loans of any one borrower could not comprise more than 5 percent of the assets in a pool of loans for a Type IV security. This will protect banks against the risk of excessive concentrations in the underlying pool of loans for a Type IV security.

The proposed rule also applies to Type IV securities existing OCC interpretations that permit a national bank to deal in securities secured by Type I securities. Accordingly, a national bank would be able to deal in, or to buy and sell for its own account, Type IV securities that are secured by Type I securities consistent with existing OCC precedent.

TYPE V SECURITIES

The OCC also proposes separate prudential standards for highly-rated asset-backed securities. These securities are formed from an underlying pool of loans, such as automobile or credit card loans. The proposed rule would call these securities "Type V" to signify their different treatment under the rule. Like Type IV securities, type V securities would be subject to a diversification requirement in the underlying pool of loans; loans of any one borrower could not make up more than 5 percent of the assets in a pool of loans for a Type V security.

The OCC proposes that national banks be able to invest 15 percent of capital and surplus in Type V securities from a single issuer, rather than the 10 percent limit that the OCC currently applies to asset-backed securities that qualify as Type III securities. The OCC also asks for comment on whether 25 percent, instead of 15 percent, is a more appropriate limit because of the required underlying diversification in Type V securities.

CAPITAL CALCULATION FOR INVESTMENT SECURITIES

The OCC proposes to simplify the requirements for calculating capital to determine a national bank's investment limitations under Part 1. Investment limitations apply to Type II, type III and the proposed Type V investment securities. The calculation would generally be done quarterly using the capital calculation that national banks already make as part of their quarterly call report. Currently, national banks must make the calculation each time an investment is made that is subject to limitations. The OCC adopted a similar quarterly requirement for calculating capital when it revised the lending limit regulation for national banks in February.

INVESTMENT COMPANIES

The proposal also reflects long-standing OCC precedent
that national banks may purchase and sell for their own account shares in investment companies, where the investment company portfolio consists solely of assets already permissible for investment by national banks. In addition, the amount of bank investment in shares of any one investment company is subject to the same investment limitations that apply to the underlying securities in the portfolio of the investment company.

OTHER ISSUES

The OCC proposed rule addresses other issues, including:

   Enabling national banks to make prudent investments in certain corporate bonds exempt from securities registration requirements under SEC Rule 144A, provided they are rated investment grade;

   Revising the existing requirements for evidence of "marketability" for investment securities with a simpler test that will substantially ease regulatory burden; and

   Retaining flexibility in the rule to enable banks to invest in securities that further community development purposes.

The public comment period for the proposed rule closes on February 20, 1996.

SECURITIES ELIGIBLE FOR INVESTMENT BY NATIONAL BANKS (EXISTING AND PROPOSED)

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US and
general
obligations
of state and local governments and qualified Canadian government obligations.

National banks may invest, underwrite and deal in such obligations without investment limitation but subject to safety and soundness constraints.

Obligations of certain federal agencies, such as the Tennessee Valley Authority, multilateral and international development banks and certain local revenue obligations.

National banks may invest, underwrite
and deal in
subject to an
investment
limit of 10
percent of
capital
investment
grade
corporate
debt and
obligations
of foreign
governments
other than
Canada

national
banks may
invest in
subject to
an
investment
limitation
of 10
percent of
capital
residential
and
commercial
mortgage and
small
business-related
securities
specified in
RCDRI and
SMMEA

national
banks would
be able to
invest in
subject to a
5 percent
concentration limit on a single borrower in a pool of securitized loans (investment limitations were removed by RCDRI and SMMEA) highly-rated asset backed securities, such as pools of credit card or automobile loans

national banks would be able to invest in subject to the same 5 percent concentration limit as type IV securities and a proposed investment limit of 15 percent of capital; comment also requested on a limit of 25 percent

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The OCC charters, regulates and examines approximately 3,000 national banks and 70 federal branches and agencies of foreign banks in the U.S.,
accounting for more than half the nation's banking assets. Its mission is to ensure the safety and soundness of the national banking system.

Related Link:

[12 CFR 1]