

Office of Thrift Supervision

TB 52-1 was rescinded 12/1/98 by TB 13a. Click [HERE](#) to link to TB 13a.

**Handbook: Thrift Activities**  
**Subject: Investment Securities**  
**Mortgage-Backed Securities**

Section: 220; 442  
TB 52-1

April 27, 1992

# RESCINDED

## "Mismatched" Floating Rate CMOs

**Summary:** Floating rate CMOs that are indexed to a Treasury bond index, a prime-based lending rate, or to a cost of funds index, such as the 11th District Cost of Funds, are exempt from the average life and average life sensitivity tests described in Thrift Bulletin 52 (TB-52).

**For Further Information Contact:** Your Regional Office, or Policy Division, OTS-Washington, D.C.

### **Thrift Bulletin 52-1**

Any floating rate CMO that is indexed to a Treasury bond index, a prime-based lending rate, or a widely used cost of funds index, such as the 11th District Cost of Funds, (a "mismatched floater") is exempt from the average life and average life sensitivity tests described in Thrift Bulletin 52 provided it bears a rate that, at the time of purchase or at a subsequent testing date, is below the contractual interest rate cap on the instrument. Other CMO floaters that are labeled "mismatched floaters" are not necessarily exempt from the average life and sensitivity tests.

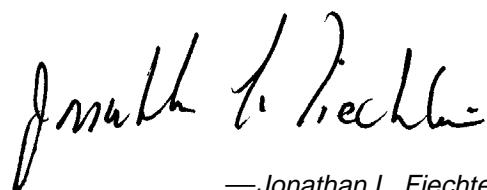
Institutions that purchase mismatched floaters should be aware that these instruments may perform poorly if the yield curve flattens significantly (i.e., if short-term interest rates rise more than long-term rates or long-term rates fall more than short-term rates).

Institutions should also be aware that mismatched floaters usually contain interest rate caps. Institutions that purchase these instruments should pay particularly close attention to the potential adverse price effect that the presence of a cap may have in rising interest rate environments.

Because the potential price risk associated with these securities is generally greater than that associated with floating rate CMOs indexed to

short-term rates, institutions should undertake a comprehensive analysis of these securities prior to purchase, and at least annually thereafter, to gain a thorough understanding of their expected performance under a wide range of interest rate and prepayment scenarios. The analysis should include nonparallel shifts in the yield curve.

Institutions that purchase these securities must maintain documentation showing that they understand the risks of these instruments. The documentation should include a pre-purchase analysis that shows the performance profile, or price sensitivity, of the securities under both parallel and nonparallel shifts in the yield curve.



—Jonathan L. Fiechter  
Deputy Director for  
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