

Press Releases

October 23, 2000

OTS 00-88 - OTS Tells Thrifts to Analyze Investment Securities Thoroughly

Office of Thrift Supervision

FOR RELEASE at 4:45 P.M. EDT

For further information

Monday, October 23, 2000

Contact: Paul Lockwood

OTS 00-88

202/906-6693

OTS Tells Thrifts to Analyze Investment Securities Thoroughly

WASHINGTON, D.C., Oct. 23, 2000 - The Office of Thrift Supervision (OTS) today cautioned thrift institutions to thoroughly analyze the quality of any security they buy, saying there have been instances in which savings associations have purchased investment securities without performing a thorough underwriting analysis. The agency warned thrifts that such securities may not meet OTS's underwriting requirements and may not be safe and sound investments.

In a letter sent today to OTS-regulated thrifts, OTS Deputy Director Rick Riccobono said examiners will criticize thrifts that make investments that don't measure up to regulatory requirements, and the agency may require divestiture of such securities.

As an example, OTS cited a new, high-risk investment product marketed as principal-protected trust certificates, or split-rated trust certificates. The certificates are guaranteed by an AAA-rated counterparty to repay full principal at maturity. The certificates are sold at face value, but in the early years, less than 50 percent of that face value may be protected because the amount guaranteed must be discounted to its present value, much like a zero coupon bond. Then too, the certificates' earnings flow from the lowest-rated tranche of collateralized loan obligations. This residual interest tranche is last in line to receive cash flow from the underlying pool of commercial loans and, in some cases, high yield corporate debt securities.

Today's letter to thrift CEOs said institutions should not be misled by split ratings where only a part of the security is either guaranteed or rated investment grade. Thrift management is required to do its own analysis of securities and not rely solely on outside ratings, the letter said, pointing out that these split-rated trust investments are speculative and are clearly not intended to hedge interest rate risk or credit risk.

CEO Letter 130 - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2000-88a.pdf>

###

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.