The attached proposed rule would clarify that a Federal savings association may issue letters of credit and enter into suretyship and guaranty agreements. It would impose certain restrictions, based upon safety and soundness, on such agreements issued by Federal and state-chartered savings associations. It also seeks comment on whether OTS should adopt a regulation addressing the escrow authority of Federal savings associations.

The notice of proposed rulemaking was published in the September 18, 1998, edition of the Federal Register, Vol. 63, No. 181, pp. 49874 - 49877. Written comments must be received on or before November 17, 1998, and should be addressed to: Manager, Dissemination Branch, Records Management and Information Policy Division, Office of Thrift Supervision, 1700 G Street, N.W., Washington, DC 20552. Comments may be mailed or hand-delivered, faxed to 202/906-7755 or E-mailed to: public.info@ots.treas.gov All commenters should include their name and telephone number.

For further information contact:

William Magrini 202/906-5744
Supervision Policy

Karen Osterloh 202/906-6639
Regulations and Legislation

Attachment
This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

DEPARTMENT OF THE TREASURY
Office of Thrift Supervision
12 CFR Parts 545, 560
[No. 98–92]
RIN 1550–AB21
Letters of Credit, Suretyship and Guaranty
AGENCY: Office of Thrift Supervision, Treasury.
ACTION: Notice of proposed rulemaking.
SUMMARY: The Office of Thrift Supervision (OTS) is proposing to amend its regulations to clarify that a Federal savings association may act as guarantor and may issue letters of credit. Additionally, the proposed rule would impose restrictions, based on safety and soundness, on suretyship and guaranty agreements issued by Federal and state-chartered savings associations. The OTS is also requesting comment on whether it should adopt a regulation addressing the escrow authority of Federal savings associations.
DATES: Comments must be received on or before November 17, 1998.
ADDRESSES: Send comments to Manager, Dissemination Branch, Records Management and Information Policy, Office of Thrift Supervision, 1700 G Street N.W., Washington, D.C. 20552, Attention Docket No. 98–92. These submissions may be hand-delivered to 1700 G Street, N.W., from 9:00 a.m. to 5:00 p.m. on business days; they may be sent by facsimile transmission to FAX Number (202) 906–7755; or they may be sent by e-mail: public.info@ots.treas.gov. Those commenting by e-mail should include their name and telephone number. Comments will be available for inspection at 1700 G Street, N.W., from 9:00 a.m. until 4:00 p.m. on business days.
SUPPLEMENTARY INFORMATION: The OTS is proposing this rule to clarify a Federal savings association’s authority to act as guarantor and to issue letters of credit. Additionally, the proposed rule would impose restrictions, based on safety and soundness, on suretyships and guaranty agreements issued by Federal and state-chartered savings associations. The OTS also is seeking comment on whether it should adopt a regulation to address the escrow authority of Federal savings associations.

1. Suretyship and Guaranty

Section 5(b)(2) of the Home Owners’ Loan Act (the “HOLA”) provides “[t]o such extent that the Director may authorize in writing, a Federal savings association * * * may be surety as defined by the Director * * *.” The OTS’s current regulations at 12 CFR 545.103 authorize Federal savings associations to act as surety subject to several requirements.

The OTS is proposing to make several modifications to the surety regulation. Initially, the OTS would move this regulation from part 545, which governs the general operations of Federal savings associations, to Part 560, subpart A, which addresses the lending and investment powers of Federal thrifts. See proposed § 560.45. Neither HOLA nor the current OTS regulations specifically address a Federal savings association’s authority to issue a guaranty. Under a suretyship agreement, the surety is bound with its principal to pay or perform an obligation to a third party. Under a guaranty agreement, on the other hand, the guarantor agrees to satisfy the obligation of the principal to another party. While both a surety and guarantor agree to be bound for the principal, there are other differences between the two types of agreements. A surety is usually bound with the principal by the same instrument, which is executed simultaneously. On the other hand, a guarantor usually enters into a separate agreement with the third party in which the principal does not join. The guaranty agreement is usually entered into before or after that of the principal, and is often founded on a separate consideration from that supporting the contract of the principal.

The OTS and its predecessor, the Federal Home Loan Bank Board (“FHLBB”), have long recognized that the authority of a Federal savings association to act as guarantor is subsumed within section 5(b)(2) of the HOLA. To clarify this point, proposed § 560.45 would specifically state that a Federal savings association is also authorized to act as guarantor.

Currently, § 545.103 contains various provisions designed to ensure the safety and soundness of surety agreements by Federal savings associations. These safety and soundness concerns are the same for suretyship and guaranty agreements by state-chartered savings associations. Accordingly, the OTS proposes to incorporate these requirements in part 560, subpart B, which contains the safety and soundness-based lending and investment restrictions applicable to all savings associations. Proposed § 560.115(a) would state that to the extent that a savings association has the legal authority to do so, it may enter into an agreement to act as surety or guarantor, if the agreement meets stated requirements. Proposed section 560.115(b) is a new provision, which explains the terms “suretyship and guaranty agreement.”

3 Id. at 705.
Proposed \$ 560.115(c) would contain four restrictions on surety and guaranty agreements. The first restriction is new. It would require that the association's obligation under the suretyship or guaranty agreement be limited to a fixed amount and limited in duration. Without a restriction limiting the amount and duration of the agreement, a Federal savings association may take on more risk than it bargained for in the agreement. The remaining three restrictions are based on the current rule on suretyship agreements at \$ 545.103. Under the proposed rule, a savings association may enter into an agreement only if its performance under the agreement (e.g., the payment of the obligation on behalf of the principal) would create a loan or other investment that is authorized for the association under applicable law. Additionally, the savings association's obligation under the agreement would be treated as a contractual commitment to advance funds to the principal under the loans-to-one-borrower limits and loans to insider restrictions. Finally, the savings association must take and maintain a perfected security interest in collateral sufficient to cover its obligation under the agreement.

The proposed rule would modify the collateral requirements currently imposed under existing \$ 545.103. Under the current rule, a Federal savings association must take and maintain a security interest in real estate or marketable securities equal to 110 percent of its obligation under the agreement. If collateral is real estate, the Federal savings association must establish the value of the property by a signed appraisal consistent with 12 CFR part 564. If the collateral is marketable securities, the Federal savings association must be authorized to invest in the securities and must ensure that the value of the securities is equal to 110 percent of the obligation at all times. These requirements are retained for all savings associations at proposed \$ 560.45(d)(1).

The proposed rule, however, would permit a savings association to hold collateral of a lesser amount under certain circumstances. This new provision is modeled on the Office of Comptroller of the Currency's (OCC) rule on suretyship and guaranty agreements.\footnote{12 CFR 7.1017 (1998).} Under proposed \$ 560.45(d)(2), a savings association would be permitted to maintain a security interest equal to 100 percent of the obligation, if the collateral is cash, obligations of the United States or its agencies, obligations fully guaranteed by the United States or its agencies as to principal and interest, or notes, drafts, or bills of exchange or bankers' acceptances that are eligible for rediscount or purchase by a Federal Reserve Bank.\footnote{12 CFR 545.103(b) (1998).}

The OTS requests comment on whether there are other suretyship, guaranty, or similar arrangements that the OTS should permit either by rule or through an approval process. For example, the OCC has determined that an arrangement whereby a national bank holds out to the public that it will honor checks drawn on it up to a certain amount, is essentially an agreement by the bank to extend credit to the depositor and is a permissible activity.\footnote{12 CFR 5.104 (1996).} The OTS requests comment on whether the final rule should clarify how it will treat such arrangements.

II. Letters of Credit and Other Independent Undertakings

Under existing OTS and FHLBB precedent, Federal savings associations are authorized to issue letters of credit. Although the HOLA does not explicitly confer the authority to issue letters of credit, both agencies determined that the express authority to invest in or make loans necessarily includes the authority to make loan commitments and to issue letters of credit.\footnote{See 12 CFR 7.7015 (1996).}

Until recently, the OTS regulations specifically authorized Federal savings associations to issue commercial and standby letters of credit.\footnote{61 FR 50651, 50658 (September 30, 1996).} In the recent rule on lending and investment, the OTS proposed to include an express authorization for letters of credit in the lending and investment chart at 12 CFR 560.30. However, the OTS deleted this authorizing provision in the final rule "because issuing a letter of credit is not in and of itself a loan or investment." The OTS, nonetheless, included prudent standards for the issuance of letters of credit and other approved independent undertakings by all savings associations at 12 CFR 560.120. These standards, however, apply only to the extent that a savings association has legal power to issue and commit to issue letters of credit and other approved independent undertakings.

The deletion of \$ 545.48 has inadvertently created confusion as to whether Federal savings associations continue to hold authority to issue letters of credit and other approved independent undertakings. To clarify this point, the OTS is proposing to add a new section to part 560, subpart A, and delete the paragraphs which address the authority to issue letters of credit and other investment powers of Federal savings associations. While a letter of credit technically is neither a loan nor an investment, once funds are advanced under a letter of credit, the advance is treated as an extension of credit and is subject to investment limits and other restrictions on lending. See \$ 560.31(a). Accordingly, the OTS believes it is appropriate to place this new provision in part 560.

Proposed \$ 560.50 would state that a Federal savings association may issue letters of credit and such other independent undertakings as are approved by the OTS, subject to the restrictions of \$ 560.120. Like existing \$ 560.120, the new section uses the phrase "letters of credit and other independent undertakings." The OTS has used this phrase to encompass letters of credit as well as all commitments where the Federal savings association's obligation to honor the commitment is dependent solely on the proper presentation of specified documents regardless of extrinsic factors (except fraud, forgery, or an overriding public policy issue). The term covers a broad array of transactions including commercial letters of credit, standby letter of credit, and other undertakings that are functionally identical or equivalent to letters of credit.

In the thrust context, the broad scope of the term "independent undertakings" and its recent evolution require close
supervision and review when such undertakings fall outside the more traditional activities generally known as letters of credit. Accordingly, OTS believes that allowing Federal savings associations to issue independent undertakings of a type specifically approved by OTS strikes the appropriate balance between allowing a Federal savings association the flexibility to engage in such transactions and, at the same time, ensuring that thrifts have properly evaluated the risks posed by a particular transaction consistent with prudent banking practice. OTS anticipates that its approval may take the form of legal opinions, general guidance, or case-by-case approvals, depending upon how the undertakings are presented to the agency.14

III. Escrow Accounts

Although the HOLA does not expressly address escrow accounts, the OTS and the FHLBB have authorized Federal savings associations to provide escrow services in several instances. For example, the FHLBB, in 1959 issued a policy statement permitting Federal savings associations to provide escrow services in connection with real estate loans. This policy statement provided:

A Federal savings association may not act generally as an agent for the public in handling escrows. It may, however, handle escrows relating to real estate loans it makes and, to the extent reasonably incidental to accomplishing its express purposes, may handle escrows for others involving the type of real estate transactions common to the savings association business.15

This policy statement remained substantively unchanged until 1996 when OTS removed it because the “authority to establish escrow accounts is subsumed within the authority of Federal savings associations to make loans and does not need to be specifically identified in the CFR.”16

Some questions have been raised concerning the scope of Federal savings associations’ authority to handle escrow accounts that are not related to loans. For example, even while the policy statement was effective, the OTS indicated that fiduciary activities involving non-discretionary activities such as escrow or safekeeping services, or acting as a custodian or paying agent are implicit in the express powers of Federal savings associations, including deposit powers.17

More recently, the OTS issued an opinion stating that a Federal savings association may hold an account that would escrow funds representing down-payments on vacations for its customer, a vacation organizer.18 The OTS concluded that the activity fell within the incidental powers of Federal savings associations.19 The OTS reasoned that the proposed escrow service would allow the savings association to provide its customer with more convenient access to needed financial services and is, thus, consistent with Congress’ intent that Federal savings associations meet the needs of their business customers. Moreover, the OTS found that the proposed escrow service is similar to deposit taking and other escrow, safekeeping and document custodian services that Federal savings associations are already authorized to conduct. Further, the OTS noted that the proposed escrow activities would support funds intermediation by facilitating the conduct of financial transactions and would permit thrifts to compete more equally with commercial banks, which are permitted to provide such services.20

While the OTS has not proposed any new regulatory text on escrow accounts in today’s rulemaking, it requests comment whether it should issue a rule clarifying the scope of escrow authority of Federal savings associations. Commenters are also specifically asked to address whether the OTS should place any restrictions on the exercise of the escrow authority.

IV. Executive Order 12866

The Director of the OTS has determined that this proposed regulation does not constitute a “significant regulatory action” for the purpose of Executive Order 12866.

V. Regulatory Flexibility Act

Pursuant to section 605(b) of the Regulatory Flexibility Act, OTS certifies that this proposed regulation will not have a significant economic impact on a substantial number of small entities. Today’s proposed rule would not impose any additional burdens or requirements on small entities. Rather, the proposed rule simply clarifies the authority of Federal savings associations to act as guarantor and issue letters of credit. While the proposed rule also restricts the circumstances under which Federal and state-chartered savings associations may enter into surety and guaranty agreements, the proposed restrictions are the minimum necessary for safe and sound operations and should not impose a significant burden on small savings associations.

VI. Unfunded Mandates Act of 1995

Section 202 of the Unfunded Mandates Reform Act of 1995, Pub. L. 104-4 (Unfunded Mandates Act), requires that an agency prepare a budgetary impact statement before promulgating a rule that includes a Federal mandate that may result in expenditure by state, local, or tribal governments, in the aggregate, or by the private sector, of $100 million or more in any one year. If a budgetary impact statement is required, section 205 of the Unfunded Mandates Act also requires an agency to identify and consider a reasonable number of regulatory alternatives before promulgating a rule. The OTS has determined that the proposed rule will not result in expenditures by state, local, or tribal governments or by the private sector of $100 million or more. Accordingly, this rulemaking is not subject to section 202 of the Unfunded Mandates Act.

List of Subjects

12 CFR Part 545

Consumer protection, Credit, Electronic funds transfers, Investments, Manufactured homes, Mortgages, Reporting and recordkeeping requirements, Savings associations.

12 CFR Part 560

Consumer protection, Investments, Manufactured homes, Mortgages, Reporting and recordkeeping requirements, Savings associations, Securities.

Accordingly, the Office of Thrift Supervision amends chapter V, title 12, Code of Federal Regulations as set forth below:

PART 545—[AMENDED]

PART 560—LENDING AND INVESTMENT

1. The authority citation for part 560 continues to read as follows:

§ 545.103 [Redesignated as § 560.115]
2. Section 545.103 is redesignated as § 560.115 and revised to read as follows:

§ 560.115 Suretyship and guaranty.

(a) May a savings association act as surety or guarantor? To the extent that a savings association has legal authority to do so, it may enter into an agreement to act as surety or guarantor if the agreement meets the requirements of this section.

(b) What is a suretyship or guaranty agreement? Under a suretyship or guaranty agreement, a savings association is bound with its principal to pay or perform an obligation to a third person. Under a guaranty agreement, a savings association agrees to satisfy the obligation of the principal only if the principal fails to pay or perform.

(c) What requirements apply to these agreements? A savings association may enter into a suretyship or guaranty agreement if the agreement meets each of the following requirements:

1. The savings association’s obligations under the agreement are limited to a fixed dollar amount and are limited in duration.

2. The savings association’s performance under the agreement would create a loan or other investment that is authorized under applicable law.

3. The savings association’s obligation under the agreement is treated as a contractual commitment to advance funds to the principal under § 560.93 of this part and § 563.43 of this chapter.

4. The savings association must take and maintain a perfected security interest in collateral sufficient to cover its total obligation under the agreement.

(d) What collateral is sufficient?

1. If the collateral is real estate, the savings association must establish the value by a signed appraisal consistent with part 564 of this chapter. The savings association must consider the value of prior mortgages, liens or other encumbrances on the property, except those held by the principal to the suretyship or guaranty agreement.

2. If the collateral is marketable securities, the savings association must be authorized to invest in that security taken as collateral. The savings association must ensure that the value of the security is 110 percent of the obligation at all times during the term of agreement.

2. The savings association may take and maintain a perfected security interest in collateral which is at all times equal to at least 100 percent of its obligation, if the collateral is:

1. Cash;

2. Obligations of the United States or its agencies;

3. Obligations fully guaranteed by the United States or its agencies as to principal and interest; or

4. Notes, drafts, or bills of exchange or bankers’ acceptances that are eligible for rediscount or purchase by a Federal Reserve Bank.

3. Section 560.45 is added to subpart A to read as follows:

§ 560.45 Suretyship and guaranty authority.

A Federal savings association is authorized to enter into an agreement to act as surety or guarantor, subject to the restrictions in § 560.115 of this part.

4. Section 560.50 is added to subpart A to read as follows:

§ 560.50 Letters of credit and other independent undertakings—authority.

A Federal savings association is authorized to issue letters of credit and may issue such other independent undertakings as are approved by the OTS, subject to the restrictions in § 560.120 of this part.

By the Office of Thrift Supervision.

Ellen Seidman,
Director.

[FR Doc. 98–25022 Filed 9–17–98; 8:45 am]

BILLING CODE 6720–01–P

DEPARTMENT OF TRANSPORTATION
Federal Aviation Administration
14 CFR Part 39
[Docket No. 98–ANE–19–AD]
RIN 2120–AA64

Airworthiness Directives; General Electric Aircraft Engines CF34 Series Turbofan Engines

AGENCY: Federal Aviation Administration, DOT.

ACTION: Notice of proposed rulemaking (NPRM).

SUMMARY: This document proposes the adoption of a new airworthiness directive (AD) that is applicable to General Electric Aircraft Engines (GE) CF34 series turbofan engines. This proposal would require rework of the main fuel control (MFC) to add a flange vent groove and installation of a reworked MFC with improved overspeed protection. This proposal is prompted by reports of rapid uncommanded engine acceleration events. The actions specified by the proposed AD are intended to prevent uncommanded engine accelerations, which could result in an engine overspeed, uncontained engine failure, and damage to the aircraft.

DATES: Comments must be received by November 17, 1998.

ADDRESSES: Submit comments in triplicate to the Federal Aviation Administration (FAA), New England Region, Office of the Regional Counsel, Attention: Rules Docket No. 98–ANE–19–AD, 12 New England Executive Park, Burlington, MA 01803–5299. Comments may also be sent via the Internet using the following address: “9–ad@faa.dot.gov”. Comments sent via the Internet must contain the docket number in the subject line. Comments may be inspected at this location between 8:00 a.m. and 4:30 p.m., Monday through Friday, except Federal holidays.

The service information referenced in the proposed rule may be obtained from GEAE Technical Publications, Attention: N. Hanna MZ340M2, 1000 Western Avenue, Lynn, MA. 01910. This information may be examined at the FAA, New England Region, Office of the Regional Counsel, 12 New England Executive Park, Burlington, MA.


SUPPLEMENTARY INFORMATION:

Comments Invited

Interested persons are invited to participate in the making of the proposed rule by submitting such written data, views, or arguments as they may desire. Communications should identify the Rules Docket number and be submitted in triplicate to the address specified above. All communications received on or before the closing date for comments, specified above, will be considered before taking action on the proposed rule. The proposals contained in this notice may be changed in light of the comments received.

Comments are specifically invited on the overall regulatory, economic, environmental, and energy aspects of the proposed rule. All comments...