Department of the Treasury
Office of Thrift Supervision

Transmittal
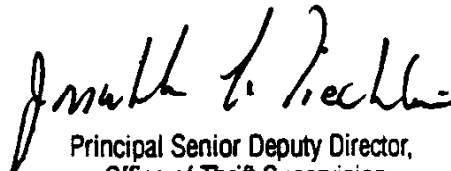
Attached for your information is a memorandum sent to the Office of Thrift Supervision's District Directors earlier this week. As the memorandum states, the Office has revised, for purposes of its capital regulation, its treatment of loans in process.

We will shortly forward to each institution amended instructions for the Thrift Financial Report to reflect this decision.

Principal Senior Deputy Director,
Office of Thrift Supervision

August 7, 1990

MEMORANDUM FOR THE DISTRICT DIRECTORS

FROM: Jonathan L. Fiechter
               Principal Senior Deputy Director

SUBJECT: Minimum Capital Requirements: Treatment of Loans
               In Process

We have revised the treatment of loans in process (LIPs) under
the risk-based capital standards. (LIPs represent the
undisbursed portion of loans.)   Based on a review of the risks
of LIPs and the treatment afforded LIPs by the Federal bank
regulatory agencies, we have decided to treat LIPs, for capital
adequacy purposes, as off-balance sheet obligations. Like other
off-balance sheet obligations, LIPs are first converted to
on-balance sheet "equivalents" and then placed into the
appropriate risk-weight category.

The off-balance sheet conversion factor will vary depending on
the language of the agreement. Commitments with an original
maturity exceeding one year (unless they are unconditionally
cancelable) are converted at 50%; all other commitments
(including those unconditionally cancelable) are converted at
0%.

There are two exceptions to this treatment. First, when savings
associations charge interest based on the full amount of the
loan (including both the disbursed and undisbursed portions),
associations must "gross up" the LIP with their on-balance sheet
assets. Second, if the LIP is, in effect, a direct credit
substitute, savings associations must use the 100% conversion
factor.

We will amend the instructions to the Thrift Financial Report to
reflect this decision.