Office of Thrift Supervision
Department of the Treasury
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Director

August 31, 1994

MEMORANDUM FOR: Chief Executive Officers

FROM: Jonathan L. Fiechter
Acting Director

SUBJECT: Nonhigh-Risk Mortgage Securities
Regulatory Reporting

On August 8, 1994, the Federal Financial Institutions Examination Council (FFIEC) issued the attached release, FIL-57-94, "Clarification of Treatment of Nonhigh-Risk Mortgage Securities in Bank Reports of Condition and Income and Thrift Financial Reports". Savings associations should follow the guidance in this release as they prepare their 1994 regulatory reports.

Attachment

Federal Financial Institutions Examination Council

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FIL-57-94
August 8, 1994

REGULATORY REPORTING

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Clarification of Treatment of Nonhigh-risk Mortgage Securities in Bank Reports of Condition and Income and Thrift Financial Reports*

Summary

FDIC-insured banks and savings associations that have the positive intent and ability to hold to maturity nonhigh-risk mortgage securities -- as defined in the Federal Financial Institutions Examination Council's (FFIEC) Supervisory Policy Statement on Securities Activities -- may include such securities in the held-to-maturity category on their Reports of Condition and Income (Call Reports) and Thrift Financial Reports (TFRs) when the criteria in Financial Accounting Standards Board Statement No. 115 (FAS 115) are met.[1]

Discussion

The FFIEC policy statement, as amended by the FFIEC's April 15, 1994, release, indicates that in certain circumstances, examiners might request the divestiture of "high-risk" mortgage securities. In this connection, it has been noted that the possibility exists that nonhigh-risk mortgage securities may at some time in the future become "high-risk," as defined in the FFIEC policy statement and, thus, possibly be subject to examiner-ordered divestiture. In view of this possibility, questions have arisen as to whether an institution can have the positive intent and ability to hold to maturity <u>any</u> nonhigh-risk mortgage security and, accordingly, whether such securities are eligible for placement in the held-to-maturity category under FAS 115.

The federal regulatory agencies note that only in rare circumstances have examiners required a financial institution to dispose of mortgage securities that have become "high-risk" after

[1] This guidance also applies to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002/002S).

acquisition. Such circumstances have occurred only when examiners have determined that there is a significant safety and soundness concern with respect to a particular institution that has arisen from its holdings of these assets. The agencies note that examiners' divestiture authority is not unique to high-risk mortgage securities but rather is the same authority they have with respect to any other security or asset. Thus, the mere existence of examiners' divestiture authority for high-risk mortgage securities should not preclude an institution from concluding it has the intent and ability to hold to maturity those securities that were nonhigh-risk when acquired.

Joe M. Cleaver

Joe M. Cleaver
Executive Secretary

Distribution: Insured Banks and Savings Associations