

NR 95-140  
December 21, 1995

OCC Proposes Changes to Rules for National Bank  
Investment Securities

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) published a proposed rule in today's Federal Register that would revise part 1 of its regulations. Part 1 contains standards for investment securities activities by national banks. The proposed rule reorganizes the regulation by placing related subjects together, clarifying areas where the rules are unclear and confusing, and updating various provisions to address market developments and to incorporate significant OCC interpretations, judicial decisions and statutory amendments.

The proposed rule is part of the OCC's regulatory review project to modernize and simplify OCC regulations and reduce unnecessary regulatory burden. This proposed regulation marks the 24th regulation that the OCC has acted on so far as part of its regulatory review program.

The OCC welcomes comments on all aspects of this proposed regulation, particularly the issues specifically noted in the Preamble. A summary of the most significant proposals follows.

TYPES I, II AND III SECURITIES

The proposed rule would retain the existing designations for Type I, II and III securities. Type I securities consist of obligations of the United States and general obligations of state and local governments. Type II securities are obligations of certain federal agencies, such as the Tennessee Valley Authority, obligations of multilateral and international development banks, and certain municipal bonds issued for housing, dormitory or university purposes. Type III securities are other marketable obligations of investment quality.

TYPE IV SECURITIES

The proposed rule would implement federal legislation that removed quantitative limits on bank investments in residential and commercial mortgage and small business-related securities. The Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRI) supplemented the Secondary Mortgage Market Enhancement Act of 1984 (SMMEA) to remove statutory limits on national banks' purchase of certain mortgage-and small business-related securities, subject to regulations prescribed by the OCC. The OCC proposes to call these securities Type IV to differentiate them from Types I, II and III securities.

Today's rule also proposes safety and soundness standards for Type IV securities. For example, under the proposal, loans of any one borrower could not comprise more than 5 percent of the assets in a pool of loans for a Type IV security. This will protect banks against the risk of excessive concentrations in the underlying pool of loans for a Type IV security.

The proposed rule also applies to Type IV securities existing OCC interpretations that permit a national bank to deal in securities secured by Type I securities. Accordingly, a national bank would be able to deal in, or to buy and sell for its own account, Type IV securities that are secured by Type I securities consistent with existing OCC precedent.

#### TYPE V SECURITIES

The OCC also proposes separate prudential standards for highly-rated asset-backed securities. These securities are formed from an underlying pool of loans, such as automobile or credit card loans. The proposed rule would call these securities "Type V" to signify their different treatment under the rule. Like Type IV securities, type V securities would be subject to a diversification requirement in the underlying pool of loans; loans of any one borrower could not make up more than 5 percent of the assets in a pool of loans for a Type V security.

The OCC proposes that national banks be able to invest 15 percent of capital and surplus in Type V securities from a single issuer, rather than the 10 percent limit that the OCC currently applies to asset-backed securities that qualify as Type III securities. The OCC also asks for comment on whether 25 percent, instead of 15 percent, is a more appropriate limit because of the required underlying diversification in Type V securities.

#### CAPITAL CALCULATION FOR INVESTMENT SECURITIES

The OCC proposes to simplify the requirements for calculating capital to determine a national bank's investment limitations under Part 1. Investment limitations apply to Type II, type III and the proposed Type V investment securities. The calculation would generally be done quarterly using the capital calculation that national banks already make as part of their quarterly call report. Currently, national banks must make the calculation each time an investment is made that is subject to limitations. The OCC adopted a similar quarterly requirement for calculating capital when it revised the lending limit regulation for national banks in February.

#### INVESTMENT COMPANIES

The proposal also reflects long-standing OCC precedent

that national banks may purchase and sell for their own account shares in investment companies, where the investment company portfolio consists solely of assets already permissible for investment by national banks. In addition, the amount of bank investment in shares of any one investment company is subject to the same investment limitations that apply to the underlying securities in the portfolio of the investment company.

#### OTHER ISSUES

The OCC proposed rule addresses other issues, including:

Enabling national banks to make prudent investments in certain corporate bonds exempt from securities registration requirements under SEC Rule 144A, provided they are rated investment grade;

Revising the existing requirements for evidence of "marketability" for investment securities with a simpler test that will substantially ease regulatory burden; and

Retaining flexibility in the rule to enable banks to invest in securities that further community development purposes.

The public comment period for the proposed rule closes on February 20, 1996.

#### SECURITIES ELIGIBLE FOR INVESTMENT BY NATIONAL BANKS (EXISTING AND PROPOSED)

type I  
securities  
(existing)  
type II  
securities  
(existing)  
type III  
securities  
(existing)  
type IV  
securities  
(proposed)  
type V  
securities  
(proposed)

US and  
general  
obligations

of state and  
local  
governments  
and qualified  
Canadian  
government  
obligations

national  
banks may  
invest,  
underwrite  
and deal in  
without  
investment  
limitation  
but subject  
to safety  
and soundness  
constraints.

obligations  
of certain  
federal  
agencies,  
such as the  
Tennessee  
Valley  
Authority,  
multilateral  
and  
international  
development  
banks and  
certain local  
revenue  
obligations

national  
banks may  
invest,  
underwrite

and deal in  
subject to an  
investment  
limit of 10  
percent of  
capital  
investment  
grade  
corporate  
debt and  
obligations  
of foreign  
governments  
other than  
Canada

national  
banks may  
invest in  
subject to  
an  
investment  
limitation  
of 10  
percent of  
capital  
residential  
and  
commercial  
mortgage and  
small  
business-related  
securities  
specified in  
RCDRI and  
SMMEA

national  
banks would  
be able to  
invest in  
subject to a  
5 percent

concentration limit on a  
single  
borrower in  
a pool of  
securitized  
loans  
(investment  
limitations  
were removed  
by RCDRI and  
SMMEA)  
highly-rated  
asset backed  
securities,  
such as pools  
of credit  
card or  
automobile  
loans

national  
banks would  
be able to  
invest in  
subject to  
the same 5  
percent  
concentration  
limit as type  
IV securities  
and a  
proposed  
investment  
limit of 15  
percent of  
capital;  
comment also  
requested on  
a limit of 25  
percent

# # #

The OCC charters, regulates and examines approximately 3,000 national  
banks  
and 70 federal branches and agencies of foreign banks in the U.S.,

accounting for more than half the nation's banking assets. Its mission is to ensure the safety and soundness of the national banking system.

Related Link:

[\[12 CFR 1\]](#)