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OCC Adopts Rules for National Bank Investment Securities

WASHINGTON, DC -- The Office of the Comptroller of the Currency (OCC) published a final regulation in today's Federal Register that revises Part 1 of its regulations. Part 1 prescribes the standards for investment securities activities by national banks. The final rule is part of the OCC's regulatory review program to modernize and simplify OCC regulations and reduce unnecessary regulatory burden.

The final rule retains the existing designations for Type I, II and III securities. Type I securities are 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.

The final rule implements federal legislation removing quantitative limits on bank investments in residential and commercial mortgage-related securities and small business-related securities. The Riegle Community Development and Regulatory Improvement Act of 1994 supplemented the Secondary Mortgage Market Enhancement Act of 1984 by removing statutory limits on national banks' purchase of certain mortgage- and small business-related securities, subject to regulations prescribed by the OCC. The final rule designates these securities Type IV to differentiate them from Types I, II and III securities.

Today's rule prescribes safety and soundness standards for Type IV securities. The rule contains the requirement that residential and commercial mortgage-related securities be rated investment grade by a nationally recognized statistical rating organization and, in order to ensure diversification, requires that Type IV securities be composed of interests in a pool of loans to numerous obligors.

In addition, for Type IV small business-related securities that are rated in the third or fourth highest rating category, a bank's investment in securities of any one issuer is limited to 25 percent of capital and surplus. No percentage of capital and surplus limit applies if the securities are rated in the top two rating categories.

Today's rule also establishes separate prudential standards for other highly-rated asset-backed securities. These securities are formed from an underlying pool of loans, such as automobile or credit card loans. The final rule designates these securities Type V to signify their different treatment under the rules. As with Type IV securities, the final rule requires that Type V securities be composed of a pool of loans to numerous obligors. In addition, a national bank's investment in the Type V

securities of any one issuer is limited to 25 percent of capital.

This 25 percent limit provides protection against undue risk concentrations and parallels the credit concentration limits used in the Comptroller's Handbook for National Bank Examiners.

The OCC is simplifying requirements for calculating capital to determine a national bank's investment limitations under Part 1 for Types II, III, IV and V 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 last year.

Other key features of the final rule include provisions enabling national banks to make prudent investments in certain corporate bonds exempt from securities registration under SEC Rule 144A, replacing the existing requirement for evidence of marketability with simpler tests that will ease regulatory burden, and retaining flexibility to enable banks to invest in securities that further community development purposes.

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The OCC charters, regulates and supervises approximately 2,800 national banks and 66 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 a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.