PRESS RELEASE

Federal Deposit Insurance Corporation

August 25, 1995

FDIC TO ISSUE RULE LOWERING CAPITAL REQUIREMENT ON SMALL BUSINESS LOANS SOLD WITH RECOURSE

FOR IMMEDIATE RELEASE

The FDIC Board of Directors has approved an interim rule to reduce the minimum capital levels FDIC-supervised institutions must maintain for certain small business loans and leases that are sold with recourse. This action implements Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, and will become effective when it appears in the Federal Register.

The other federal banking and thrift regulators are issuing similar rules that will apply to the institutions they supervise.

Regulatory reporting instructions for an FDIC-supervised bank generally require an institution that transfers assets with recourse to continue to report these assets on its balance sheet when filing its quarterly Call Reports. Thus, these amounts normally are included in the denominator when calculating the bank's risk-based and leverage capital ratios. This regulatory reporting and capital treatment differs from how transfers of assets with recourse are reported under generally accepted accounting principles (GAAP), which permit many such transactions to be reported as sales, thereby allowing the assets to be removed from the balance sheet.

In general, banks currently must maintain risk-based capital against the full amount of assets transferred with recourse. Under the interim rule, however, qualifying institutions that sell small business obligations with recourse are required to maintain risk-based capital only against the amount of recourse retained, if two conditions are met. First, the transaction must be treated as a sale under GAAP. Second, the transferring institution must establish a non-capital reserve sufficient to meet the reasonably estimated liability under the recourse arrangements. A qualifying institution is defined as one that is well capitalized or, with the approval of the FDIC, adequately capitalized, as these terms are set forth in the FDIC's prompt corrective action rules. Under the interim rule, the amount of recourse retained by a qualifying institution on transactions receiving this preferential capital treatment cannot exceed 15 percent of the bank's total risk-based capital.

Consistent with Section 208 of the Riegle Act, the preferential capital treatment set forth in this interim rule will not affect the application of prompt corrective action sanctions.

Although the rule is effective upon publication in the Federal Register, comments will be accepted for 60 days.