FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

Division of Supervision

Risk-Based Capital

FIL-27-95
April 3, 1995

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Final Rule Lowering the Capital Requirements on Assets Transferred With Low Levels of Recourse*

The FDIC Board of Directors has adopted a final rule limiting the amount of risk-based capital that FDIC-supervised banks must maintain for low-level "recourse" transactions. Recourse involves the retention of any risk of loss by an institution in connection with an asset or pool of assets it transfers to another financial institution, a government agency or some other party. The final rule implements Section 350 of the Riegle Community Development and Regulatory Improvement Act of 1994 (Riegle Act) and corrects an inconsistency in the agency's risk-based capital standards, as explained below. The other federal banking agencies are taking similar action. A copy of the final rule is attached.

Under the FDIC's current risk-based capital standards, an institution that transfers assets with recourse must hold capital against the full outstanding amount of the transferred assets. This rule normally applies regardless of the level of recourse that has been retained. As a consequence, an institution transferring assets with a low level of recourse may be required to hold risk-based capital exceeding its maximum contractual liability under the recourse agreement. This occurs in transactions where recourse exposure is less than the risk-based capital requirement for the assets transferred -- generally, four percent for residential mortgage loans and eight percent for most other assets.

The final rule is substantially the same as what was proposed in May of 1994 as part of a broader interagency proposal regarding recourse arrangements and direct credit substitutes. The final rule limits the amount of risk-based capital required to be held in low-level recourse transactions to the maximum amount of loss possible under the recourse agreement. Although the final rule is not effective until April 27, 1995, FDIC-supervised banks may choose to apply the low level recourse rule when providing risk-based capital information in their Reports of Condition and Income (Call Reports) for March 31, 1995. Interim guidance on the reporting of low-level recourse transactions for risk-based capital purposes (Schedule RC-R) has been included in the Supplemental Instructions accompanying the Call Reports for the first quarter of 1995.

For more information, please contact Robert F. Storch, Chief of the Accounting Section in the FDIC's Division of Supervision (202-898-8906).

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Director

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