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

Division of Supervision

Capital Standards

FIL-64-96
August 22, 1996

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *Proposed Revisions to Risk-Based Capital Treatment for Collateralized Transactions*

The FDIC and the other federal banking agencies are jointly proposing to revise the risk-based capital treatment for certain "collateralized transactions." These transactions generally represent claims held by banks, including loans and repurchase agreements, that are collateralized by cash or securities issued by the U.S. Treasury or U.S. Government agencies.

Under the FDIC's current risk-based capital guidelines, collateralized transactions generally are assigned to the 20 percent risk-weight category. However, in consultation with the other federal banking agencies--the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision--the FDIC is proposing to allow qualifying portions of claims collateralized by cash and government securities to be assigned to the zero percent risk-weight category. To qualify for this preferential capital treatment, the collateralized arrangement must specify the collateralized portion of the claim and require daily maintenance of a positive margin of collateral.

The proposal's effect would be to allow FDIC-supervised banks to hold less capital for certain transactions collateralized by cash or government securities. This proposal also is consistent with Section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994, which requires the FDIC and the other federal banking agencies to work jointly to make their regulations and guidelines implementing common statutory or supervisory policies uniform.

The attached Federal Register joint notice includes a detailed explanation of the proposed rule. Comments on this proposal will be accepted until October 15, 1996. For further information, contact Stephen G. Pfeifer, Examination Specialist in the Division of Supervision's Accounting Section, on (202) 898-8904.

Nicholas J. Ketcha Jr.
Director

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