



Capital Standards

FIL-112-97
October 24, 1997

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *Final Rule on Capital Requirements for Small Business Loans Sold With Recourse*

The FDIC Board of Directors has approved the attached final rule on the minimum capital levels that FDIC-supervised institutions must maintain for certain small business loans and leases that are sold with recourse. The FDIC's final rule is consistent with the rules adopted by the other federal banking agencies.

The new rule essentially makes permanent an interim interagency rule in effect since 1995 reducing the minimum capital levels that institutions must maintain for these transactions. It also implements Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994.

The FDIC's capital standards generally require that banks maintain risk-based capital against the full amount of assets transferred with recourse. Under the interim and final rules, if two conditions are met, qualifying institutions that sell small business obligations with recourse are required to maintain risk-based capital only against the amount of recourse retained. The two conditions are the transaction must be treated as a sale under generally accepted accounting principles (GAAP), and the transferring institution must establish a non-capital reserve sufficient to meet its reasonably estimated liability under the recourse arrangements.

The final rule states that 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. (A qualifying institution is defined as one that is well-capitalized or, with the approval of the FDIC, adequately capitalized, as set forth in the FDIC's prompt corrective action rules.) Under the final rule, this preferential capital treatment will not affect the application of prompt corrective action sanctions.

For further information, please call Stephen G. Pfeifer, Examination Specialist in the Division of Supervision, at 202-898- 8904.

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Director

[Attachment:](#) Oct. 24 Federal Register, pp 55490-55493, available on the FDIC web site: /banknews

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