



NEWS RELEASE

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FDIC REVISES THE CAPITAL TREATMENT OF INTANGIBLE ASSETS

The FDIC Board of Directors today agreed to permit state-chartered banks supervised by the agency to count toward their capital requirements limited amounts of "purchased credit card relationships." These relationships are intangible assets that represent the rights to provide credit card services for customer relationships acquired from others.

Only about 25 banks supervised by the FDIC (out of a total of approximately 7,500) have purchased credit card relationships and will benefit from the modest relaxation of the capital standards. However, the new rule was developed as part of an interagency effort to review the way intangible assets should be treated for capital purposes and to eliminate differences among the regulators.

The existing FDIC rule adopted in 1990 allows only one type of intangible asset — "purchased mortgage servicing rights" — to count toward capital. (Purchased mortgage servicing rights are the acquired rights to service mortgage loans owned by others). That rule allows purchased mortgage servicing rights to count toward capital but only up to 50 percent of Tier 1 capital. (Tier 1 capital generally is comprised of common equity capital less the amount of disallowed intangible assets.)

Under the final rule adopted today, the FDIC will maintain the same 50 percent limit for qualifying intangibles but will allow banks to include purchased credit card relationships as well as purchased mortgage servicing rights. However, purchased credit card relationships alone can amount to no more than 25 percent of Tier 1 capital. Any purchased mortgage servicing

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rights and purchased credit card relationships that exceed these limits, as well as disallowed intangible assets such as goodwill and core deposit intangibles, will continue to be deducted from capital and assets in calculating an institution's Tier 1 capital.

The new rule, which is substantially the same as a proposal issued for public comment in March, was developed in consultation with the other federal banking agencies. The Federal Reserve Board already has approved a similar rule for the state chartered banks it supervises. The Office of the Comptroller of the Currency and the Office of Thrift Supervision are in the process of adopting similar rules for the institutions they supervise. The agencies are revising the rules because, unlike most intangibles, purchased credit card relationships share characteristics with purchased mortgage servicing rights in generally possessing a readily identifiable stream of cash flows and an ability to be sold separate and apart from the bank in markets that can provide liquidity for these assets.

The final rule also imposes other limitations, conditions and restrictions intended to ensure that the values of qualifying intangibles are not inflated. For example, any purchased mortgage servicing rights and purchased credit card relationships recognized for capital purposes will need to have their book values and fair market values determined by the institution on at least a quarterly basis. The FDIC also reserves the right to require an institution to obtain a fair market valuation by an independent valuation expert in those situations deemed appropriate for safety and soundness purposes. In addition, the amount of qualifying intangible assets that will be recognized in the capital calculation will be further limited to the lower of 90 percent of fair market value or 100 percent of book value.

The new rule will become effective 30 days after it appears in the Federal Register.