FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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Media Contact:
David Barr (202) 898-6992

FDIC PROPOSES TO REVISE THE CAPITAL TREATMENT OF INTANGIBLE ASSETS

The Federal Deposit Insurance Corporation's Board of Directors today agreed to seek public comment on a plan to permit FDIC-supervised banks to count limited amounts of "purchased credit card relationships" toward their capital requirements.

Purchased credit card relationships are intangible assets that represent the rights to provide credit card services for customer relationships acquired from others. The FDIC proposal was developed in consultation with the other federal banking agencies to ensure that any interagency differences in the treatment of intangible assets will be eliminated. The Federal Reserve Board, the Office of the Comptroller of the Currency and the Office of Thrift Supervision are in the process of issuing similar proposals.

Under the FDIC's current rules, all intangible assets are deducted from a bank's capital and assets in calculating capital requirements, except for limited amounts of "purchased mortgage servicing rights" (the acquired rights to service mortgage loans owned by others). This single type of intangible asset currently may be recognized up to a maximum of 50 percent of the bank's core capital.

The new proposal would allow both purchased credit card relationships and purchased mortgage servicing rights to count toward capital requirements, subject to certain limits. Both forms of intangible assets would be aggregated under the same 50 percent maximum that now applies only to purchased mortgage servicing rights. In addition, purchased credit card relationships alone would be restricted to no more than 25 percent of the bank's core capital.

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

The FDIC proposal also would subject the mortgage servicing rights and credit card relationships to certain other limitations, conditions and restrictions. For example, any purchased mortgage servicing rights and purchased credit card relationships recognized for regulatory capital purposes would need an internal fair market valuation analysis at least quarterly and an independent fair market valuation analysis annually. Also, for capital purposes, the value of qualifying intangible assets would be limited to the lesser of 90 percent of fair market value, 90 percent of the original purchase price or 100 percent of current book value.

The regulatory agencies are considering allowing purchased credit card relationships to count toward capital because this type of asset is similar to purchased mortgage servicing rights in generally having a readily identifiable stream of cash flows and an ability to be sold separate and apart from the bank in markets that provide liquidity for these intangibles. These characteristics set these two types of intangible assets apart from most others.

Comments on the proposal are due 30 days after the date of publication in the Federal Register.

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