

## Press Releases

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### OTS 96-83 - OTS Simplifies Regulations for Savings Associations Subsidiaries

#### Office of Thrift Supervision

#### News Release

FOR RELEASE at 10:00 a.m. EST

For further information

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### **OTS SIMPLIFIES REGULATIONS FOR SAVINGS ASSOCIATION SUBSIDIARIES**

WASHINGTON, D.C., Dec. 18, 1996 -- The Office of Thrift Supervision (OTS) today issued a streamlined and simplified regulation on thrift institution subsidiaries. The final subsidiaries rule was published in today's Federal Register with an effective date of Jan. 1, 1997. It is the fourth major group of rules reviewed and completely rewritten by the agency this year. A fifth group was revised last year.

The subsidiaries regulation is written in the plain language style promoted by Vice President Gore's Regulatory Reinvention Initiative. The rule is a complete overhaul of regulations dealing with setting up, investing in and operating savings associations' subordinate organizations. These are primarily operating subsidiaries and service corporations. The rule draws together in one place (new part 559 of the Code of Federal Regulations) provisions that had been scattered throughout the code. It also features a chart that facilitates easy comparison of the different requirements that apply to subsidiaries and service corporations.

An operating subsidiary is controlled by the parent thrift and engages exclusively in activities permissible for the thrift. A service corporation may engage in a broader range of activities than its parent thrift as long as the activities are deemed by OTS to be reasonably related to financial institutions. However, a thrift's investment in service corporations is limited by law.

In the revised rule, OTS clarifies those limits. The parent thrift may hold up to 3 percent of its assets in stock and loans to a service corporation. It may make additional loans to a service corporation that are of the same type it can make to a third party. Such loans are subject to the same overall statutory investment limits as apply to all loans and to certain additional safeguards specified in the new regulations.

The calculation of required capital to be held against investments in subsidiaries is being made less burdensome because the definition of a subsidiary under the capital rule now more closely

parallels generally accepted accounting principles and is more consistent with the other banking agencies.

To further clarify investment options, the rule adds a section dealing with pass-through equity investments. These are investments in entities such as limited partnerships or mutual funds that hold assets or engage exclusively in activities permitted for federal savings associations. Until now, these investments have been discussed only in legal opinions and policy statements. The proposal simplifies certain investment requirements while adding safeguards and grouping them in one place.

The list of preapproved service corporation activities has been revised. The rule confirms that all activities permitted for federal savings associations, except deposit taking, are preapproved for service corporations. Also preapproved are additional activities that OTS has already routinely approved on a case-by-case basis.

Procedural requirements for thrifts to establish or acquire a new operating subsidiary and to convert an existing service corporation to an operating subsidiary, or the reverse, also have been streamlined.

OTS began the reinvention of its regulations in 1995 and announced late in the year it had weeded out many obsolete and duplicative requirements. The process continued in 1996 with the revamping of its major lending rules and regulations covering corporate governance and conflicts of interest/corporate opportunity/ hazard insurance. The reinvention process will continue in 1997, OTS said.

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS' mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents call PubliFax at 202/906-5660, or visit the OTS web page at [www.ots.treas.gov](http://www.ots.treas.gov).