OTS 98-72 - New Rule On Letters of Credit, Surety and Guarantee Proposed by OTS

WASHINGTON, D.C., Sept. 18, 1998 - The Office of Thrift Supervision has issued a proposed rule for letters of credit, suretyship and guaranty, and also requests comment on whether the agency should adopt a regulation dealing with the escrow authority of federal savings associations.

The proposed rule will make it clear that a federal savings association may enter into guaranty agreements under Section 5 (b) (2) of the HOLA. It also revises safety and soundness restrictions for surety and guaranty agreements issued by federal and state-chartered savings associations.

The new restrictions are substantially the same as those found in the current rule at 12 CFR 545.103, which applies to federal savings associations, with three exceptions. First, the restrictions will apply to state as well as federally chartered institutions. Second, the rule eases the current collateral requirements for such agreements by permitting a savings association to take collateral equal to 100 percent, rather than 110 percent, of its surety or guaranty obligation if the collateral is cash or similar readily marketable assets. Third, the rule requires that all agreements must be limited to a fixed dollar amount and limited in duration.
The proposed rule also clarifies that federal savings associations may issue letters of credit and other approved independent undertakings. It does not revise the existing safety and soundness restrictions on letters of credit, applicable to all savings associations.

The proposed rule, published in the Federal Register, September 18, 1998, also seeks comment on whether the agency should adopt a regulation clarifying its policy on permitting federal savings associations to establish escrow accounts.

OTS welcomes comments on the proposed rule. The comment period will close on November 17, 1998. Comments should be addressed to: Manager, Dissemination Branch, Records Management and Information Policy, Office of Thrift Supervision, 1700 G Street, N.W., Washington, DC 20552.

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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.

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