OTS Announces Publication of Basel IA Proposal Addressing Domestic Risk-Based Capital Modifications

Washington, D.C. - The Office of Thrift Supervision (OTS) announced today that it expects publication in the Federal Register early next week of an interagency notice of proposed rulemaking (NPR) regarding potential revisions to the existing domestic risk-based capital framework (Basel IA). These changes would apply to U.S. banks, bank holding companies, and savings associations.

The NPR proposes various modifications to the U.S. risk-based capital standards, including:

- Increasing the number of risk weight categories to which credit exposures may be assigned;
- Expanding the use of external credit ratings as an indicator of credit risk for externally-rated exposures;
- Expanding the range of collateral and guarantors that may qualify an exposure for lower risk weights;
- Using loan-to-value ratios for assigning risk-weights to residential mortgages;
- Modifying the credit conversion factor for various commitments, including those with an original maturity of under one year;
- Assessing a risk-based capital charge to reflect the risks in securitizations with early amortization provisions that are backed by revolving retail exposures;
- Removing the 50 percent limit on the risk weight that applies to certain derivative contracts;
- Seeking comment on possible approaches for changing the capital treatment of small business loans and for incorporating credit scores into the proposal for risk weighting residential mortgages;
- Allowing institutions to elect to adopt a Basel IA framework or remain subject to the existing risk-based capital rules; and
- Seeking comment on whether core Basel II banks should be allowed to use approaches other than the advanced approach of Basel II to calculate their capital requirements.

A copy of the Basel IA NPR should be available in the December 26, 2006, Federal Register.

###
The Office of Thrift Supervision, an office of the Department of the Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of, and compliance with consumer protection laws by, thrift institutions, and to support their role as home mortgage lenders and providers of other community credit and financial services. OTS also oversees the activities and operations of thrift holding companies that own or control thrift institutions. Copies of OTS news releases and other documents are available at the OTS web page at www.ots.treas.gov.