



Transmittal

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Attached is a proposed treatment of certain conservatively underwritten residential construction loans under the risk-based capital regulation of the Office of Thrift Supervision (the "OTS"), 12 C.F.R. Part 567, § 567.6. The rule would place certain conservatively underwritten residential construction loans in the 50 percent risk-weight category in computing associations' risk-based capital requirements. Such loans are currently in the 100 percent risk-weight category. This regulatory amendment will help to ensure that credit is available for credit-worthy builders to construct homes for individuals who have made substantial financial commitments to such projects.

To qualify for the 50 percent risk-weight category, the loans must satisfy designated prudential criteria in addition to generally applicable conservative underwriting standards. These loans must be made in accordance with sound lending principles to builders with substantial project equity for the construction of pre-sold homes. The homes must be sold under firm contracts to purchasers who have obtained firm commitments for permanent qualifying mortgages and have made substantial "earnest money" deposits ("residential bridge loans").

banks and savings associations to individuals to fund construction of their own homes are already included in the 50 percent category under the risk-based capital rules of the Office of the Comptroller of the Currency ("OCC") and the OTS. The proposed amendment would give parallel treatment to qualifying residential bridge loans made directly to builders for the construction of individuals' homes. The other federal banking agencies are considering adoption of similar capital treatment for these types of loans.

The OTS solicits comment on all aspects of this proposed regulation, particularly on the prudential criteria to be applied to residential bridge loans.

The proposal is published in the *Federal Register*, Vol. 56, No. 251, pp. 67551-67553. Comments on the proposed rule must be received on or before January 30, 1992, addressed to: Director, Information Services, Public Affairs Office, Office of Thrift Supervision, 1700 G Street NW, Washington, DC 20552.

Director
Office of Thrift Supervision

Attachment