

Press Releases

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OTS 01-21 - Director Seidman Announces Staff Paper That Finds Real Estate Lending Less Risky Than Capital Rules Suggest

Office of Thrift Supervision

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Director Seidman Announces Staff Paper That Finds Real Estate Lending Less Risky Than Capital Rules Suggest

SACRAMENTO - Office of Thrift Supervision Director Ellen Seidman this evening announced the preliminary findings of an OTS economist's working paper that concludes that the 1988 Basel Capital Accord risk weights do not accurately track the historical credit experience of U.S. loan portfolios and suggests that residential mortgage and other real estate secured loans may be relatively overburdened by the current standards.

Speaking here at the Eighth Annual Economic Development Summit of the Greenlining Institute, Ms. Seidman, said, "The thrift industry, with its emphasis on community real estate lending, is a major factor in making affordable housing available to more Americans than ever before.

"While in places like California, where land and housing prices are high compared to income, factors other than financing are critical to affordable home ownership and innovative financing is still extremely important." She called real estate lending the "bread and butter of the thrift industry."

The research working paper reported that non-mortgage "commercial loans in particular appear to be under-burdened by the Basel risk weights, while mortgages are relatively overburdened." It said that collateralized loans generally pose the smallest credit risk and that only a small proportion of financial institutions would exhaust a standard capital allocation for real estate loans.

The paper, *Basel Buckets and Loan Losses: Absolute and Relative Loan Underperformance at Banks and Thrifts* by Mark D. Flood, senior financial economist, looks at 230,000 institution-years from 1984-1999 and two million data items. The paper is available through OTS's web page, ots.treas.gov.

Basel Buckets and Loan Losses - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2001-21a.pdf>

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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's 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 visit the OTS web page at www.ots.treas.gov.