

Office of Thrift Supervision

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Regulatory Bulletin

Handbook: Thrift Activities  
Subject: Qualified Thrift Lender Test

Section: 270  
RB 32-5

December 23, 1996

Qualified Thrift Lender Test  
**RESCINDED**

Summary: Attached is revised Thrift Activities Regulatory Handbook Section 270, Qualified Thrift Lender Test, dated December 1996, which replaces the January 1994 edition.

For Further Information Contact: Your Regional Office, or Francis E. Raue, Policy Analyst, Supervision Policy, Washington, D.C., (202) 906-5750.

Regulatory Bulletin 32-5

The following changes were made to Thrift Activities Regulatory Handbook Section 270. This new section incorporates changes that Section 2303 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996 made to the Qualified Thrift Lender (QTL) test provisions of the Home Owners' Loan Act.

- Thrift institutions now have the option to be qualified thrift

lenders by either meeting the traditional QTL test or the Internal Revenue Service's (IRS) domestic building and loan tax code (DBLA) test.

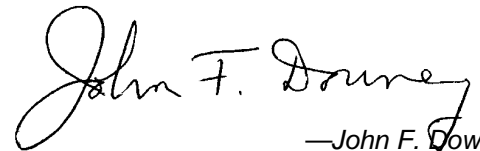
- Small business, educational, and credit card loans are now includable without limit for purposes of meeting the QTL test. Previously, small business loans were included only if made in a credit-needy area, and educational and credit card loans were included subject to a 10 percent of portfolio assets limit.
- Consumer loans (other than credit card and educational

loans) are now includable, along with other specified loans and investments, up to 20 percent of portfolio assets. The previous limit for consumer loans was 10 percent of portfolio assets.

The above changes are incorporated into a revised QTL worksheet, which is attached as Appendix C to Section 270. Section 270 also attaches Appendixes A and B, which are the Internal Revenue Code and IRS' regulatory definitions of domestic building and loan association, respectively.

The revised Section 270 procedures and guidelines are effective immediately.

Attachment



—John F. Downey  
Executive Director, Supervision

**Introduction**

To be a Qualified Thrift Lender (QTL), a thrift institution must either meet the Home Owners' Loan Act (HOLA) QTL test or the Internal Revenue Service (IRS) tax code Domestic Building and Loan Association (DBLA) test.

**QTL Test**

Under the QTL test, a thrift institution must hold Qualified Thrift Investments (QTI) equal to at least 65 percent of its portfolio assets. The ratio of an institution's QTI (numerator) divided by its portfolio assets (denominator) is the institution's actual thrift investment percentage (ATIP). QTI fall into one of two categories: assets includable without limit, or assets limited to 20 percent of portfolio assets. Assets includable without limit count in full as QTI. The 20 percent of portfolio assets limit applies to the aggregate amount of assets in the category, not to the amount of each asset in the category.

Portfolio assets are total assets minus goodwill and other intangible assets, office property, and liquid assets not exceeding 20 percent of total assets. A thrift institution ceases to be a QTL when its ATIP falls, at month end, below 65 percent for four months within any 12-month period.

**Assets includable as QTI without limit consist of:**

- Loans (including qualifying real estate owned as a result of such loans) to purchase, refinance, construct, improve, or repair domestic residential or manufactured housing.
- Home equity loans.
- Educational loans.
- Small business loans.
- Loans made through credit cards or credit card accounts.
- Securities backed by or representing an interest in mortgages on domestic residential or manufactured housing.
- FHLB stock.
- Obligations of the FDIC, FSLIC, RTC, and the FSLIC Resolution Fund (depending on the date of the issue of such obligations).

**Assets includable as QTI up to 20 percent of portfolio assets consist of:**

- 50 percent of the amount of domestic residential housing mortgage loans originated and sold within 90 days. A thrift may on a consistent basis include as QTI either the sales amounts from a previous quarter or the previous rolling 90 days or three-month period.
- Investments in a service corporation that derives at least 80 percent of its gross revenues from activities related to domestic or manufactured residential housing.
- 200 percent of the amount of investments in "starter homes."
- 200 percent of the amount of investments in "credit-needy areas."
- Loans for the purchase, construction, development, or improvements of "community service facilities" not in credit-needy areas.
- Loans for personal, family, or household purposes (other than those reported in the assets includable without limit category).
- FNMA and FHLMC stock.

**DBLA Test**

To be a QTL under the DBLA test (IRS regulation 26 CFR § 301.7701-13A), an institution must meet a "business operations test" and a "60 percent of assets test."

The business operations test requires the business of a DBLA to consist primarily of acquiring the savings of the public and investing in loans. A thrift institution will ordinarily meet the public savings requirement when its savings are acquired in conformity with OTS rules and regulations, or more than 75 percent of its deposits, withdrawable shares, and other obligations are held by the general public as opposed to being held by family or related business groups or persons who are officers or directors of the institution. A thrift institution meets the investing in loans requirement if more than 75 percent of its gross income consists of interest on loans, government obligations and various other specified types of operating income that financial institutions ordinarily earn, with some exclusions.

The 60 percent of assets test requires that at least 60 percent of a DBLA's assets consist of assets that

thrifts normally hold, except for consumer loans that are not educational loans. This test also does not count, as the QTL test does to a limited or optional extent, mortgage loans that are originated and sold into the secondary market and subsidiary investments.

See Appendix A for the Internal Revenue Code statutory definition of domestic building and loan association (26 USCA § 7701(a)(19)), and Appendix B for the IRS' implementing regulation defining domestic building and loan association (26 CFR § 301.7701-13A).

### Background

Congress first established the QTL test as part of the Competitive Equality Banking Act of 1987 (CEBA). Effective January 1, 1988, the Federal Home Loan Bank Board implemented the CEBA provisions by requiring all thrift institutions to invest at least 60 percent of their tangible assets in certain housing and housing-related investments to maintain QTL status.

Congress amended the QTL test as part of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and raised the required ATIP to 70 percent. The statutory changes were phased in over a two-year period. On August 9, 1990, new penalty provisions for failing the QTL test became effective and on July 1, 1991, the remainder of the FIRREA changes became effective.

The Federal Deposit Insurance Corporation Improvement Act of 1991 lowered the required ATIP to 65 percent, and changed the computation period from a required weekly average to a required maintenance period of 9 out of 12 immediately preceding months.

The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) amended the QTL requirements to give thrifts a choice of tests. A thrift must qualify either by meeting the HOLA QTL test, as amended by the EGRPRA, or by meeting the IRS's DBLA tax code test. The EGRPRA amended the QTL test to allow (1) educational loans, small business loans and credit card loans to count as QTIs without limit, and (2) loans for personal, family or household purposes (other than those included in the without limit category) to count as QTI in the category limited to 20 percent of portfolio assets.

### Definitions

A thrift institution must be able to demonstrate that items being counted as QTI meet the specific definitions set forth below:

#### *Acquisition, Development, and Construction (ADC) Loans*

ADC loans may be included in QTI without limit provided the property being acquired is reasonably certain to be developed as domestic residential housing. Moreover, to count as QTI, an ADC loan must meet at least one of the following criteria: (1) the loan is for property that is zoned exclusively for residential use; (2) the property is zoned to permit residential use and there are restrictions in the deed to the property that limit its use to primarily residential dwellings; or (3) the borrower will construct dwellings immediately on nearly all of residentially zoned property.

#### *Domestic Residential or Manufactured Housing*

"Domestic" refers to housing located within the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and the Pacific Islands.

#### *Mutual Funds*

A thrift institution may count mutual fund investments as QTI on a pro rata basis to the same extent that the underlying investments would be included in QTI if the thrift had invested directly in the underlying investments. The mutual funds must also meet the other standards set forth in HOLA § 5 (c)(1)(Q).

#### *Starter Home Loans*

To be defined as a starter home loan for QTL purposes, a loan must meet the following criteria:

- secured by a residential dwelling where 75 percent or more of the value of a development consists of such homes;
- located in the thrift institution's Community Reinvestment Act (CRA) community; and
- valued at the time the loan is made at an appraised value of 60 percent less than the median value of newly constructed one- to four-family houses in the institution's CRA community.

If no median figures are available for the thrift institution's CRA community, there are three permissible methods for estimating the median housing price in the community.

- **Federal Housing Finance Board (FHFB) Method.** A thrift may rely on the most recent annual statewide housing value data generated by the FHFB. OTS regional offices will make available the FHFB data.
- **National Association of Home Builders (NAHB) Method.** NAHB publishes median housing prices monthly for 147 metropolitan areas as part of its Housing Opportunity Index. If the thrift's CRA area is included in one of these surveyed areas, the most recent NAHB data may be used.
- **Private Method.** A thrift may rely on figures generated by a private company, with substantial experience conducting market surveys, for newly constructed housing values for a year from the date of the survey. The survey methodology will be subject to review during examinations.

Starter homes may include up to 25 percent of the loan amount for facilities serving the community, e.g., community centers or shopping malls.

#### *Loans To Credit-Needy Areas*

A credit-needy area is an area within the institution's delineated CRA community that meets the specific census tract, loan activity, or alternative characteristics described below:

- **Census Tract Characteristics**
  - Census tracts, counties or areas in a Metropolitan Statistical Area (MSA) with median household income that is 80 percent or less of the MSA median.
  - Census tracts, counties or areas in a MSA that are 35 percent or more minority with a median household income that is 120 percent or less of the MSA median.
- **Loan Activity Characteristics**
  - Census tracts where (1) loans by all institutions, as reported by the most recent available aggregate Home Mortgage Disclosure Act (HMDA) data, total 50 percent or less of the average loan volume for all census tracts in the MSA, and (2) the median household income is 120 percent or less of the MSA median.

- **Alternative Characteristics**

These are subject to review for reasonableness during examinations.

- Areas that have been designated as credit-needy by federal, state, or local government and that receive some form of credit-related targeted assistance from federal, state, or local government.
- If none of the above data are available for the association's community, credit-needy areas may be identified after consultation with local government and community representatives.

In addition, if the loan is for a small business or a "community service facility," (defined as churches and other places of worship, schools, nursing homes, hospitals and other similar facilities in a community) the loan may be classified as a loan to a credit-needy area for QTL purposes if it meets one of the following criteria:

- The loan is to a community service facility or a small business within the credit-needy area.
- The loan is to a small business that is owned by an individual whose home address is within the credit-needy area.
- The loan is to a community service facility that primarily serves individuals whose homes are within the credit-needy area.

For example, under the first alternative, a loan to a community center, school, or small business in a credit-needy area would qualify. Under the second, a small business loan to a person residing in a credit-needy area but whose business is not within such an area would qualify. Finally, under the third, loans to hospitals, churches or school dormitories that have clientele, the majority of whom live in credit-needy areas, would qualify.

#### **Consolidation of Subsidiaries**

In determining a thrift institution's portfolio assets in the calculation of its ATIP, the thrift must consolidate its assets with a subsidiary's assets when:

- the subsidiary's assets are consolidated with the thrift's assets in determining its QTI; or
- the subsidiary's residential mortgage loans orig-

inated and sold within 90 days of origination are included in determining the thrift's QTL.

Except for these circumstances, a thrift has the option to consolidate or not, and may make such a decision as frequently as monthly.

### Penalties

Statutory penalty provisions require a thrift institution that fails to remain a QTL to either become a national bank, or:

- not make any new investments or engage in any activity not allowed for both a national bank and a thrift institution.
- not establish any new branch office if a national bank is not allowed to establish such a branch office.
- not obtain new FHLBank advances.
- not pay dividends unless allowable for a national bank.

Any company that controls a thrift that fails to regain its QTL status within one year must register as and be deemed to be a bank holding company.

Three years from the date a thrift ceases to be a QTL, by failing either to meet the QTL test or the DBLA test, it shall:

- not retain any investment or engage in any activity not allowed for both a national bank and a thrift institution.
- promptly and prudently repay any FHLBank advances.

### Requalification

A thrift institution may requalify as a QTL only once. Failure to maintain QTL status after requalification permanently subjects a thrift to the penalties described above.

### Monitoring QTL Compliance

Examiners are responsible for reviewing a thrift institution's policies and procedures for maintaining QTL or DBLA status. Examiners must also review documentation with the primary focus to:

- evaluate the eligibility of qualifying investments and to reconcile the amounts recorded;

- ensure that calculations reported on Schedule SI of a thrift's Thrift Financial Report are correct; and
- confirm that the thrift's QTL or DBLA status is correct.

### Examination Objectives

To evaluate the institution's policies, procedures, and controls for maintaining QTL or DBLA status.

To confirm the institution's QTL or DBLA status and to ensure that any consequent limitations or penalties are observed for any QTL or DBLA failure.

### Examination Procedures

#### Level I

1. Determine which test, QTL or DBLA, the institution has elected to follow. If it is the DBLA test, determine if the institution meets applicable DBLA criteria.
2. Review and assess the accuracy of the Qualified Thrift Lender Worksheet or records of compliance with the DBLA test.
3. Determine whether the institution met the requirements of the QTL or DBLA test since the last examination.
4. Review the previous examination report to determine the presence of any QTL-related issues.
5. Assess the institution's policies, procedures, and controls relating to maintenance of QTL or DBLA status.
6. Determine whether any exceptions to the ATIP requirement, pursuant to HOLA § 1467a(m)(2), apply (e.g., extraordinary circumstances exist).
7. Determine whether all investments are qualified and whether they are recorded correctly.
8. Review documentation supporting the inclusion of any investments that are not clearly eligible.
9. Ensure that the *Examination Objectives* of this Handbook Section have been met. State your

findings, conclusions, and appropriate recommendations for any necessary corrective measures on the appropriate work papers and report pages.

10. If the institution failed the QTL or DBLA test, perform Level II procedures.

*Level II*

11. When the thrift has failed the QTL or DBLA test, determine if the failure is the first one.
12. Determine how long the failure has lasted and if the thrift has complied with the appropriate penalties.
13. Interview management to determine if the institution intends to change the composition of its balance sheet to requalify as a QTL or DBLA.
14. Determine management's plan for maintaining QTL or DBLA status once regained, stressing the consequences of a second failure.
15. If the thrift has not complied with penalties from the date of failure, or if a second failure is found, state this finding in the examination report and

outline what actions need to be taken by the thrift to comply with the applicable penalty provisions.

## References

### United States Code (12 USC)

1430(e) Reduced Eligibility for Advances  
1467a(m) Qualified Thrift Lender Test

### United States Code (26 USC)

7701(a)(19) Domestic Building and Loan Association Test

### Code of Federal Regulations (12 CFR)

*Subchapter D: Regulations Applicable to All Savings Associations*

§ 566.1 Liquidity Definitions

### Code of Federal Regulations (26 CFR)

§ 301.7701-13A Post-1969 domestic building and loan association

**26 U.S.C.A. § 7701(a)(19)**

- (19) Domestic building and loan association.—The term “domestic building and loan association” means a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association—
- (A) which either (i) is an insured institution within the meaning of section 401(a) of the National Housing Act (12 U.S.C., sec. 1724(a)), or (ii) is subject by law to supervision and examination by State or Federal authority having supervision over such associations;
  - (B) the business of which consists principally of acquiring the savings of the public and investing in loans; and
  - (C) at least 60 percent of the amount of the total assets of which (at the close of the taxable year) consists of—
    - (i) cash,
    - (ii) obligations of the United States or of a State or political subdivision thereof, and stock or obligations of a corporation which is an instrumentality of the United States or of a State or political subdivision thereof, but not including obligations the interest on which is excludable from gross income under section 103,
    - (iii) certificates of deposit in, or obligations of, a corporation organized under a State law which specifically authorizes such corporation to insure the deposits or share accounts of member associations,
    - (iv) loans secured by a deposit or share of a member,
    - (v) loans (including redeemable ground rents, as defined in section 1055) secured by an interest in real property which is (or, from the proceeds of the loan, will become) residential real property or real property used primarily for church purposes, loans made for the improvement of residential real property or real property used primarily for church purposes, provided that for purposes of this clause, residential real property shall include single or multifamily dwellings, facilities in residential developments dedicated to public use or property used on a nonprofit basis for residents, and mobile homes not used on a transient basis,
    - (vi) loans secured by an interest in real property located within an urban renewal area to be developed for predominantly residential use under an urban renewal plan approved by the Secretary of Housing and Urban Development under part A or part B of title I of the Housing Act of 1949, as amended, or located within any area covered by a program eligible for assistance under section 103 of the Demonstration Cities and Metropolitan Development Act of 1966, as amended, and loans made for the improvement of any such real property,
    - (vii) loans secured by an interest in educational, health, or welfare institutions or facilities, including structures designed or used primarily for residential purposes for students, residents, and persons under care, employees, or members of the staff of such institutions or facilities,
    - (viii) property acquired through the liquidation of defaulted loans described in clause (v), (vi), or (vii),

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**Appendix A: Internal Revenue Code Definition of  
“Domestic Building and Loan Association”**

Section 270

- (ix) loans made for the payment of expenses of college or university education or vocational training, in accordance with such regulations as may be prescribed by the Secretary,
- (x) property used by the association in the conduct of the business described in subparagraph (B), and
- (xi) any regular or residual interest in a REMIC, but only in the proportion which the assets of such REMIC consist of property described in any of the preceding clauses of this subparagraph; except that if 95 percent or more of the assets of such REMIC are assets described in clauses (i) through (x), the entire interest in the REMIC shall qualify.

At the election of the taxpayer, the percentage specified in this subparagraph shall be applied on the basis of the average assets outstanding during the taxable year, in lieu of the close of the taxable year, computed under regulations prescribed by the Secretary. For purposes of clause (v), if a multifamily structure securing a loan is used in part of nonresidential purposes, the entire loan is deemed a residential real property loan if the planned residential use exceeds 80 percent of the property's planned use (determined as of the time the loan is made). For purposes of clause (v), loans made to finance the acquisition or development of land shall be deemed to be loans secured by an interest in residential real property if, under regulations prescribed by the Secretary, there is reasonable assurance that the property will become residential real property within a period of 3 years from the date of acquisition of such land; but this sentence shall not apply for any taxable year unless, within such 3-year period, such land becomes residential real property. For purposes of determining whether any interest in a REMIC qualifies under clause (xi), any regular interest in another REMIC held by such REMIC shall be treated as a loan described in a preceding clause under principles similar to the principles of clause (xi); except that, if such REMIC's are part of a tiered structure, they shall be treated as 1 REMIC for purposes of clause (xi).



**26 CFR Ch. 1 (4-1-96 Edition)**

**§ 301.7701-13A. Post-1969 domestic building and loan association.**

(a) *In general.* For taxable years beginning after July 11, 1969, the term "domestic building and loan association" means a domestic building and loan association, a domestic savings and loan association, a Federal savings and loan association, and any other savings institution chartered and supervised as a savings and loan or similar association under Federal or State law which meets the supervisory test (described in paragraph (b) of this section), the business operations test (described in paragraph (c) of this section), and the assets test (described in Paragraph (d) of this section). For the definition of the term "domestic building and loan association" for taxable years beginning after October 16, 1962, and before July 12, 1969, see § 301.7701-13.

(b) *Supervisory test.* A domestic building and loan association must be either (1) an insured institution within the meaning of section 401(a) of the National Housing Act (12 U.S.C. 1724(a)) or (2) subject by law to supervision and examination by State or Federal authority having supervision over such associations. An "insured institution" is one the accounts of which are insured by the Federal Savings and Loan Insurance Corporation.

(c) *Business operations test—(1) In general.* An association must utilize its assets so that its business consists principally of acquiring the savings of the public and investing in loans. The requirement of this paragraph is referred to in this section as the business operations test. The business of acquiring the savings of the public and investing in loans includes ancillary or incidental activities which are directly and primarily related to such acquisition and investment, such as advertising for savings, appraising property on which loans are to be made by the association, and inspecting the progress of construction in connection with construction loans. Even though an association meets the supervisory test described in paragraph (b) of this section and the assets test described in paragraph (d) of this section, it will nevertheless not qualify as a domestic building and loan association if it does not meet the requirements of both paragraphs (2) and (3) of this paragraph (c), relating, respectively, to acquiring the savings of the public and investing in loans.

(2) *Acquiring the savings of the public.* The requirement that an association's business (other than investing in loans) must consist principally of acquiring the savings of the public ordinarily will be considered to be met if savings are acquired in all material respects in conformity with the rules and regulations of the Federal Home Loan Bank Board or substantially equivalent rules of a State law or supervisory authority. Alternatively, such requirement will be considered to be met if more than 75 percent of the dollar amount of the total deposits, withdrawable shares, and other obligations of the association are held during the taxable year by the general public, as opposed to amounts deposited or held by family or related business groups or persons who are officers or directors of the association. However, the preceding sentence shall not apply if the dollar amount of other obligations of the association outstanding during the taxable year exceeds 25 percent of the dollar amount of the total deposits, withdrawable shares, and other obligations of the association outstanding during such year. For purposes of this paragraph, the term "other obligation" means notes, bonds, debentures, or other obligations, or other securities (except capital stock), issued by an association in conformity with the rules and regulations of the Federal Home Loan

Bank Board or substantially equivalent rules of a State law or supervisory authority. The term "other obligations" does not include an advance made by a Federal Home Loan Bank under the authority of section 10 or 10b of the Federal Home Loan Bank Act (12 U.S.C. 1430, 1430b) as amended and supplemented. Both percentages specified in this paragraph shall be computed either as of the close of the taxable year or, at the option of the taxpayer, on the basis of the average of the dollar amounts of the total deposits, withdrawable shares, and other obligations of the association held during the taxable year. Such averages shall be determined by computing each percentage specified either as of the close of each month, as of the close of each quarter, or semi-annually during the taxable year and by using the yearly average of the monthly, quarterly, or semiannual percentages obtained. The method selected must be applied uniformly for the taxable year to both percentages, but the method may be changed from year to year.

(3) *Investing in loans*—(i) *In general.* The requirement that an association's business (other than acquiring the savings of the public) must consist principally of investing in loans will be considered to be met for a taxable year only if more than 75 percent of the gross income of the association consists of—

(a) Interest or dividends on assets defined in paragraphs (1), (2), and (3) of paragraph (e) of this section,

(b) Interest on loans,

(c) Income attributable to the portion of property used in the association's business, as defined in paragraph (e)(11) of this section,

(d) So much of the amount of premiums, discounts, commissions, or fees (including late charges and penalties) on loans which have at some time been held by the association, or for which firm commitments have been issued, as is not in excess of 20 percent of the gross income of the association,

(e) Net gain from sales and exchanges of governmental obligations, as defined in paragraph (e)(2) of this section, or

(f) Income, gain or loss attributable to foreclosed property, as defined in paragraph (e)(9) of this section, but not including such income, gain or loss which, pursuant to section 595 and the regulations thereunder, is not included in gross income. Examples of types of income which would cause an association to fail to meet the requirements of this paragraph if, in the aggregate, they equal or exceed 25 percent of gross income, are: The excess of gains over losses from sales of real property (other than foreclosed property); rental income (other than on foreclosed property and the portion of property used in the association's business); premiums, commission, and fees (other than commitment fees) on loans which have never been held by the association; and insurance brokerage fees.

(ii) *Computation of gross income.* For purposes of this paragraph, gross income is computed without regard to—

(a) Gain or loss on the sale or exchange of the portion of property used in the association's business as defined in paragraph (e)(11) of this section.

(b) Gain or loss on the sales or exchange of the rented portion of property used as the principal or branch office of the association, as defined in paragraph (e)(11) of this section, and

(c) Gains or losses on sales of participations, and loans, other than governmental obliga-

tions defined in paragraph (e)(2) of this section.

For purposes of this paragraph, gross income is also computed without regard to items of income which an association establishes arise out of transactions which are necessitated by exceptional circumstances and which are not undertaken as recurring business activities for profit. Thus, for example, an association would meet the investing in loans requirement if it can establish that it would otherwise fail to meet that requirement solely because of the receipt of a non-recurring item of income due to exceptional circumstances. For this purpose, transactions necessitated by an excess of demand for loans over savings capital in the association's area are not to be deemed to be necessitated by exceptional circumstances. For purposes of paragraph (c)(3)(ii)(c) of this section, the term "sales of participations" means sales by an association of interest in loans, which sales meet the requirements of the regulations of the Federal Home Loan Bank Board relating to sales of participations, or which meet substantially equivalent requirements of State law or regulations relating to sales of participations.

(iii) *Reporting requirement.* In the case of income tax returns for taxable years beginning after July 11, 1969, there is required to be filed with the return a statement showing the amount of gross income for the taxable year in each of the categories described in paragraph (c)(3)(i) of this section.

(d) *60 Percent of assets test.* At least 60 percent of the amount of the total assets of a domestic building and loan association must consist of the assets defined in paragraph (e) of this section. The percentage specified in this paragraph is computed as of the close of the taxable year or, at the option of the taxpayer, may be computed on the basis of the average assets outstanding during the taxable year. Such average is determined by making the appropriate computation described in this section either as of the close of each month, as of the close of each quarter, or semiannually during the taxable year and by using the yearly average of the monthly, quarterly, or semiannual percentage obtained for each category of assets defined in paragraph (e) of this section. The method selected must be applied uniformly for the taxable year to all categories of assets, but the method may be changed from year to year. For purposes of this paragraph, it is immaterial whether the association originated the loans defined in paragraphs (4) through (8) and (10) of paragraph (e) of this section or purchased or otherwise acquired them in whole or in part from another. See paragraph (f) of this section for definition of certain terms used in this paragraph and in paragraph (e) of this section, and for the determination of amount and character of loans.

(e) *Assets defined.* The assets defined in this paragraph are—

(1) *Cash.* The term "cash" means cash on hand, and time or demand deposits with, or withdrawable accounts in, other financial institutions.

(2) *Governmental obligations.* The term "governmental obligations" means—

(i) Obligations of United States,

(ii) Obligations of a State or political subdivision of a State, and

(iii) Stock or obligations of a corporation which is an instrumentality of the United States, a State, or a political subdivision of a State,

other than obligations the interest on which is excludable from gross income under section 103 and the regulations thereunder.

(3) *Deposit insurance company securities.* The term "deposit insurance company securities" means certificates of deposit in, or obligations of, a corporation organized under a State law which specifically authorizes such corporation to insure the deposits or share accounts of member associations.

(4) *Passbook loan.* The term "passbook loan" means a loan to the extent secured by a deposit, withdrawable share, or savings account in the association, or share of a member of the association, with respect to which a distribution is allowable as a deduction under section 591.

(5) *Residential real property loan.* [Reserved]

(6) *Church loan.* [Reserved]

(7) *Urban renewal loan.* [Reserved]

(8) *Institutional loan.* [Reserved]

(9) *Foreclosed property.* [Reserved]

(10) *Educational loan.* [Reserved]

(11) *Property used in the association's business—(i) In general.* The term "property used in the association's business" means land, buildings, furniture, fixtures, equipment, leasehold interests, leasehold improvements, and other assets used by the association in the conduct of its business of acquiring the savings of the public and investing in loans. Real property held for the purpose of being used primarily as the principal or branch office of the association constitutes property used in the association's business so long as it is reasonably anticipated that such property will be occupied for such use by the association, or that construction work preparatory to such occupancy will be commenced thereon, within 2 years after acquisition of the property. Stock of a wholly owned subsidiary corporation which has as its exclusive activity the ownership and management of property more than 50 percent of the fair rental value of which is used as the principal or branch office of the association constitutes property used in such business. Real property held by an association for investment or sale, even for the purpose of obtaining mortgage loans thereon, does not constitute property used in the association's business.

(ii) *Property rented to others.* Except as provided in the second sentence of paragraph (11)(i) of this paragraph (e), property or a portion thereof rented by the association to others does not constitute property used in the association's business. However, if the fair rental value of the rented portion of a single piece of real property (including appurtenant parcels) used as the principal or branch office of the association constitutes less than 50 percent of the fair rental value of such piece of property, or if such property has an adjusted basis of not more than \$150,000, the entire property shall be considered used in such business. If such rented portion constitutes 50 percent or more of the fair rental value of such piece of property, and such property has an adjusted basis of more than \$150,000, an allocation of its adjusted basis is required. The portion of the total adjusted basis of such piece of property which is deemed to be property used in the association's business shall be equal to an amount which bears the same ratio to such total adjusted basis as the amount of the fair rental value of the portion used as the principal or branch office of the association bears to the total fair rental value of such property. In the case of all property other than real property used or to be used as the principal or branch office of the association, if the fair rental value of the rented portion thereof constitutes less than 15 percent of the fair rental value of such property, the entire property shall be considered used in the association's business. If such

rented portion constitutes 15 percent or more of the fair rental value of such property, an allocation of its adjusted basis (in the same manner as required for real property used as the principal or branch office) is required.

(12) *Regular or residual interest in a REMIC*—(i) *In general.* If for any calendar quarter at least 95 percent of a REMIC's assets (as determined in accordance with § 1.860F-4(e)(1)(ii) or § 1.6049-7(f)(3) of this chapter) are assets defined in paragraph (e)(1) through (e)(11) of this section, then for that calendar quarter all the regular and residual interests in that REMIC are treated as assets defined in this paragraph (e). If less than 95 percent of a REMIC's assets are assets defined in paragraph (e)(1) through (e)(11) of this section, the percentage of each REMIC regular or residual interest treated as an asset defined in this paragraph (e) is equal to the percentage of the REMIC's assets that are assets defined in paragraph (e)(1) through (e)(11) of this section. See §§ 1.860F-4(e)(1)(ii)(B) and 1.6049-7(f)(3) of this chapter for information required to be provided to regular and residual interest holders if the 95 percent test is not met.

(ii) *Loans secured by manufactured housing.* For purposes of paragraph (e)(12)(i) of this section, a loan secured by manufactured housing treated as a single family residence under section 25(e)(10) is an asset defined in paragraph (e)(1) through (e)(11) of this section.

(f) *Special rules.* [Reserved]

**Office of Thrift Supervision  
Qualified Thrift Lender Test  
QTL Worksheet**

<b>(Report in Thousands of Dollars)</b>	Prepared By:	Month Ending:
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PART 1				
PORTFOLIO ASSETS:	Line	Bil	Mil	Thou
Total Assets .....	1			
20% of Total Assets (Line 1 x 20%) .....	2			
Office Building .....	3			
Regulatory Liquidity .....	4			
Goodwill and Other Intangibles .....	5			
Total Deductions from Assets (Sum of Lines 3, 4, and 5) .....	6			
<b>Portfolio Assets (Line 1 minus Line 6) .....</b>	<b>7</b>			
20% of Portfolio Assets (Line 7 x 20%) .....	8			
PART 2				
QUALIFIED THRIFT INVESTMENTS (QTI):				
A. ASSETS INCLUDABLE WITHOUT LIMIT				
Mortgage Loans .....	9			
REO (Residential) .....	10			
Home Equity Loans .....	11			
Mortgage-Backed Securities .....	12			
Educational Loans .....	13			
Small Business Loans .....	14			
Credit Card Loans .....	15			
Obligations of Deposit Insurance Agencies Issued Prior to July 1, 1989 .....	16			
Obligations of Deposit Insurance Agencies Issued On or After July 1, 1989 .....	17			
Federal Home Loan Bank Stock .....	18			
<b>Total QTI Includable Without Limit (Sum of Lines 9 through 18) .....</b>	<b>19</b>			
B. ASSETS INCLUDABLE UP TO 20% OF PORTFOLIO ASSETS				
50% of Residential Mortgage Loans Originated and Sold within 90 days .....	20			
80% Service Corporations .....	21			
200% of 1-4 Family Residence Loans (Starter Homes < 60% Median) .....	22			
200% of Community Service Facility Loans (In Credit-Needy Areas) .....	23			
Community Service Facility Loans (Purchase, Construction, Improvement) .....	24			
Loans for Personal, Family, or Household Purposes .....	25			
FNMA or FHLMC Stock .....	26			
C. PUERTO RICAN AND VIRGIN ISLAND INSTITUTIONS:				
Loans for Personal, Family, or Household Purposes .....	27			
Community Service Facility Loans (Purchase, Construction, Improvement) .....	28			
200% of 1-4 Family Residence loans (Starter Homes < Median) .....	29			
<b>Total QTI Includable Up to 20% of Portfolio Assets</b> (Lesser of the Sum of Lines 20 through 26 or Line 8) .....	<b>30</b>			
PART 3				
<b>TOTAL QUALIFIED THRIFT INVESTMENTS (Sum of Lines 19 and 30) .....</b>	<b>31</b>			
<b>ACTUAL THRIFT INVESTMENT PERCENTAGE (ATIP) (Divide Line 31 by Line 7) .....</b>	<b>32</b>			%

OTS Form 1427 (Rev. 12/96)

To calculate the actual thrift investment percentage (ATIP), follow the instructions below, which refer to the QTL worksheet. The final calculation on Line 32 is the institution's ATIP. Each institution that elects to comply with the QTL test must perform these calculations on a monthly basis.

**Part 1 — Portfolio Assets**

Line 1 — Total Assets

Enter total assets. Consolidate a subsidiary if (1) any of the subsidiary's assets or (2) mortgages originated and sold within 90 days of origination are counted as QTI. Also, if a thrift institution counts its investment in an 80% mortgage-related revenue subsidiary as QTI, it must include that investment in total assets.

Line 2 — 20% of Total Assets

Multiply Line 1 by 20% (0.20).

Line 3 — Office Building

Enter the depreciated carrying value of the property, furniture, fixtures, and equipment that the institution uses to conduct its business.

Line 4 — Regulatory Liquidity

Enter the lesser of the institution's assets that qualify as regulatory liquidity (regardless of the 5% requirement in Part 566) or the amount on Line 2. Any collateralized mortgage obligations entered on Line 12 may not be counted as liquidity.

Line 5 — Goodwill and Other Intangibles

Enter the current unamortized balance of goodwill and other intangibles (including purchased loan servicing rights).

Line 6 — Total Deductions from Assets

Enter the sum of Lines 3, 4, and 5.

Line 7 — Portfolio Assets

Subtract line 6 from Line 1.

Line 8 — 20% of Portfolio Assets

Multiply Line 7 by 20% (0.20).

**Part 2 — Qualified Thrift Investments**

Note: For all calculations use the outstanding principal balance and add accrued interest; deduct specific valuation allowances, charge-offs, deferred loan fees, loans in process and unearned discounts.

**A. Assets Includable Without Limit**

Line 9 — Mortgage Loans

Enter loans held that were made to purchase, refinance, construct, improve, or repair domestic residential housing or manufactured housing. Note: The term "domestic" refers to units within the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and the Pacific Islands.

Line 10 — REO (Residential)

Enter residential property acquired through foreclosure, deed in lieu of foreclosure, or in-substance foreclosure that if it had remained as a mortgage loan would have been a QTI as reported on Line 10. Real estate in judgment should be included.

Line 11 — Home Equity Loans

Enter home equity loans. Note: Any consumer receivables secured in part by lien on domestic residential housing may be entered here. If entered here do not include on Line 25.

Line 12 — Mortgage-Backed Securities

Enter securities backed by or representing an interest in domestic residential housing or manufactured housing. Note: This item encompasses mortgage-pool securities, mortgage-pool pass-through securities, mortgage-backed bonds, mortgage-backed pay-through bonds, as well as any derivative mortgage-related securities that are created by disaggregating and repackaging the cash flows to be received as payments on mortgages and traditional mortgage-pool securities. The underlying assets of such securities must be domestic residential housing. Bonds, including FHLB, FHLMC, FNMA and GNMA bonds, count only if they are backed by mortgages. Resolution Funding Corporation (REFCO) bonds may not be included as QTI.

Line 13 — Educational Loans

Enter education loans.

Line 14 — Small Business Loans

Enter small business loans as defined in 13 C.F.R. Part 121.

Line 15 — Credit Card Loans

Enter loans made in conjunction with the issuance or extension of credit through a credit card. This includes loans made to consolidate credit card debt (including credit card debt that other lenders previously held), participation certificates, securities and similar instruments secured by credit card receivables.

Line 16 — Obligations of Deposit Insurance Agencies Issued Prior to July 1, 1989

Enter obligations of the FDIC or FSLIC issued prior to July 1, 1989, for a period not to exceed ten years past the issuance date.

Line 17 — Obligations of Deposit Insurance Agencies Issued On or After July 1, 1989

Enter obligations of the FDIC, the FSLIC, the FSLIC Resolution Fund, or the RTC issued on or after July 1, 1989, for a period not to exceed five years past the issuance date.

Line 18 — Federal Home Loan Bank Stock

Enter Federal Home Loan Bank stock.

Line 19 — Total QTL Includable Without Limit

Enter the sum of Lines 9 through 18.

**B. Assets Includable up to 20% of Portfolio Assets**Line 20 — 50% of Residential Mortgage Loans Originated and Sold Within 90 Days

Enter 50% of loans on domestic residential housing that the institution originated and sold within 90 days of origination, provided that these mortgage loans were sold during the quarter for which this calculation is being made. Either the previous quarter's figures or a rolling 90-day period may be used.

Line 21 — 80% Service Corporations

Enter the investment (capital stock, loans, advances,

and securities) in service corporations that derive 80% of their gross revenues from dealing in domestic residential housing or manufactured housing. *Note:* Institutions that consolidate such subsidiaries in Line 1 (Total Assets) may not report the institution's investment on this line.

Line 22 — 200% of One- to Four-Family Residence Loans (Starter Homes Less than 60% Median)

Enter 200% of loans and investments in domestic residential housing, the price of which is, or is guaranteed to be, less than 60% of the median price of comparable housing in the community where the housing is located. Not more than 25% of this line item may consist of commercial properties related to the development. Commercial properties must be directly related to providing services of the development. *Note:* To use this line item, institutions must maintain records demonstrating that the housing meets the 60% of median value test.

Line 23 — 200% of Community Service Facility Loans (In Credit-Needy Areas)

Enter 200% of loans on domestic residential housing, community service facilities, or to small businesses in any area identified as a credit-needy area, or where the institution can demonstrate that the credit needs of moderate to low income or minority residents are not met.

Line 24 — Community Service Facility Loans (Purchase, Construction, Improvement)

Enter loans for community service facilities except those included on Line 23.

Line 25 — Loans for Personal, Family, or Household Purposes

Enter personal, family, household, or share loans, except those included on Lines 13 and 15.

Line 26 — Stock of the FNMA or the FHLMC

Enter FNMA and FHLMC stock that the institution holds.

**C. Puerto Rican and Virgin Island Institutions Only — All Other Thrifts Go to Line 30.**

*Note:* For Lines 27 and 29, the amounts that Puerto Rican thrifts enter may only be for investments in



Puerto Rico, and the amounts that Virgin Islands thrifts enter may only be for investments in the Virgin Islands.

Line 27 — Loan for Personal, Family or Household Purposes

Enter personal, family, household, or share loans made to persons residing or domiciled in Puerto Rico or the Virgin Islands, except those included on Lines 11 or 25.

Line 28 — Community Service Facility Loans (Purchases, Construction, Improvement)

Enter loans for community service facilities and loans to small businesses in Puerto Rico or the Virgin Islands, except those included on Lines 23 and 24.

Line 29 — 200% of One- to Four-Family Residence Loans (Starter Homes Less than Median)

Enter 200% of loans and investments in domestic residential housing in Puerto Rico and the Virgin Islands, the price of which is, or is guaranteed to be, less than the median price of comparable housing in the community where the housing is located, except those included on Line 22. *Note:* To use this line item, institutions must maintain records demonstrating that the housing meets the median value test.

Line 30 — Total QTI Includable Up to 20% of Portfolio Assets

Enter the lesser of the sum of Lines 20 through 26 or Line 8.

**Part 3 — Total QTI and ATIP**

Line 31 — Total Qualified Thrift Investments

Enter the sum of Lines 19 and 30. This is a savings association's total QTI figure. If you are a Puerto Rican or Virgin Island savings association, also add Lines 27 through 29.

Line 32 — Actual Thrift Investment Percentage (ATIP)

Divide Line 31 by Line 7. This is a savings association's monthly ATIP.