

## Press Releases

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OTS 98-27 - Proposed Regulation Would Bar Reverse Repos with Thrifts' Non-Banking Affiliates

Office of Thrift Supervision

# NEWS

FOR RELEASE at 9:30 a.m. EDT

For further information

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OTS 98-27

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### **Proposed Regulation Would Bar Reverse Repos With Thrifts' Non-Banking Affiliates**

WASHINGTON, D.C., April 13, 1998 - Savings associations generally would be barred from entering into reverse repurchase agreements with their non-banking affiliates under a rule proposed today by the Office of Thrift Supervision (OTS).

OTS proposes to amend its Transactions With Affiliates regulation to clarify that, with one limited exception, reverse repurchase agreements with non-banking affiliates will be treated as loans or other extensions of credit and, thus, barred under the Home Owners' Loan Act.

In a reverse repurchase agreement, a thrift buys securities for cash from another entity and simultaneously agrees to sell the securities back at a higher price at a later date. In effect, this amounts to a loan of money to the other entity. The difference between the bought and sold price of the securities constitutes the yield on the transaction.

Under the proposed amendment, reverse repurchase transactions that meet the following requirements would not be treated as loans or extensions of credit:

- There is an offsetting repurchase agreement between the thrift and the affiliate under which the thrift sells assets to the affiliate subject to an agreement to repurchase. At all times, when the agreements are netted, the thrift must be a net debtor to the affiliate (meaning the affiliate has lent more to the thrift than the thrift has lent to the affiliate), and
- The assets purchased under the agreements must be U.S. Treasury securities, and the remaining term of the securities purchased by the savings association must exceed the term of the reverse repurchase agreement.
- OTS proposed to exempt such reverse repurchase agreements because they avoid the use of insured deposits as the source of funds for a corporate affiliate and substantially eliminate credit risk because on a net basis the thrift is essentially the debtor. OTS specifically requests comments on whether other common types of reverse repurchase agreements also would satisfy those requirements and, thus, should also be exempt.

The notice of proposed rulemaking was published in today's Federal Register. Comments will be accepted for the next 60 days. [Transactions with Affiliates; Reverse Repurchase Agreements; Proposed Rule \(4/13/98\)](#)

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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](http://www.ots.treas.gov).