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Capital Reduced on Small Business Loans Sold with Recourse

The Office of the Comptroller of the Currency (OCC) has sent to the Federal Register a rule that will reduce bank capital required for small business loans sold with recourse. The rule implements section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994 (CDRI).

Current rules require that national banks hold capital on the entire amount of a small business loan sold with recourse. The new rule will require capital only on the amount of the recourse obligation that a bank retains when it sells the loan, provided the bank establishes a reserve equal to the estimated liability to the bank from retaining the recourse obligation. The reserve is required under Generally Accepted Accounting Principles (GAAP).

As specified in CDRI, the rule provides that a bank must be well capitalized to take advantage of these provisions without prior OCC approval. An adequately capitalized bank must obtain prior OCC approval. In addition, small business assets sold with recourse cannot exceed 15 percent of the bank's risk-based capital.

The rule is effective upon publication in the Federal Register but comments will be accepted for 60 days after publication.

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