Office of Regulatory Activities

Regulatory Bulletin

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Waiver of Service Corporation Reporting Requirements

RESCINDED

Summary: This mem[illegible]um [illegible]marizes [illegible] guidelines [illegible] waiver [illegible] reporting for the new service corporation report a[illegible] es[illegible] [illegible] [illegible] [illegible]ver.

For Further Information Contact:
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Regulatory Bulletin 5

Introduction

The new service corporation report is filed on a quarterly basis. However, requiring a quarterly filing places an undue burden on some institutions. For this reason the waiver of reporting was developed as it provides flexibility in the collection of data as deemed necessary for supervisory concerns. The core group of institutions is necessary for OPER to estimate industry aggregates on a quarterly basis.

This procedure will be implemented beginning with the 1989 reporting cycles. The first waivers will be granted for the March 1989 Service Corporation Report due June 30, 1989.

These standards will be reviewed in December 1988, February 1989 and April 1989 when "clean" data from the June 1988, September 1988 and December 1988 filings of the new service corporation report is available. The goal of these reviews is to insure that the criteria used to identify core group institutions selects an appropriate number of institutions as well as a meaningful sample.

Guidelines for Selection of the Service Corporation Report Core Group

The Office of Policy and Economic Research (OPER) will create and maintain a core group list (or core group) of institutions that will not be eligible for a waiver of the quarterly filing requirement. This core group will contain 200 to 800 institutions. Core group institutions are selected solely on the basis of the size of the operation and/or activity, not upon risk. In order to estimate industry aggregates OPER needs data representing 50-80 percent of the total assets and activity of industry service corporations. This core group list will be updated during the year only to reflect mergers, changes of control, and other similar transactions.

In 1989, OPER will create a core group for the March 1989 filing based upon the December 1988 Service Corporation Report. The core group list will be fully revised on an annual basis beginning in 1990. The revisions to the core group will be based upon the December filing. Institutions which comprise the core group will be mailed notification by May 15 of each year beginning with May 15, 1989 for the March 1989 filing which is due June 30, 1989.

As noted previously, institutions meeting one or more of the standards for inclusion based upon evaluation of the December Service Corporation Report will not be eligible for a waiver of the quarterly filing requirement for the following year.

Standards for Inclusion in the Core Group*

1. Consolidated assets of the service corporations (SCR line A100) exceed 10% of the parent thrift association's total assets (TFR line A800).

2. The absolute value of consolidated net unrecognized gains/(losses) on futures and options (SCR line E110) exceeds $50 million.

3. The underlying notional principal of interest rate swaps, caps, and collars (SCR line E120) exceeds $200 million.

4. Loans serviced for others (SCR line E030) exceed $500 million.

5. Mortgage loans originated during the year (SCR line E130) exceed $200 million.

6. The sum of repossessed assets (SCR line A040) and real estate held for development/investment/resale (SCR line A050) exceed $200 million.

7. Noninvestment grade securities (SCR line A080) exceed $100 million.

8. Delinquent loans and defaulted securities (SCR line E010) exceed $100 million.

* Line item references are based upon the June 1988 Thrift Financial Report and Service Corporation Report Forms.

Guidelines for Service Corporation Report Waiver System

The PSA (or designee) may waive the March, June, or September reporting requirement for the Service Corporation Report filing for institutions excluded from the core group. Core group institutions cannot be waived. This waiver provision provides the flexibility to collect data on a quarterly, semi-annual, or annual basis as appropriate. Documentation for each waiver granted will be maintained for a period of at least five years. This documentation includes a brief explanation of the reason(s) for granting the waiver. The administrative procedures for the waiver system are determined by each District Bank so that they can be individually tailored.

The following guidelines are provided to ensure that standards for granting waivers are consistent from district to district.

Institutions with investments in service corporation/subsidiaries that can be reasonably determined to pose little or no risk to the parent thrift may be waived from the March, June, and September Service Corporation Report filings. Institutions with investments which are limited to the following would, under normal circumstances be waived:

(1) inactive service corporations/subsidiaries,

(2) activity types captured by the Thrift Financial Report such as Code 10 - Subsidiary Thrift and Code 11 - Finance Subsidiary as defined by regulation 545.82, and

(3) low risk activity types such as Code 21 - Escrow, Trustee Services, and Code 23 - EDP, RSU Services.

However, institutions with investments limited to (1), (2) and (3) above may be denied waivers based upon a determination by the PSA (or designee) that sufficient risk exists. Associations with minimal investments in service corporations/subsidiaries or little risk to the parent thrift institution which meet their capital requirement would also generally be waived. Note that institutions included in the OPER's core group cannot be waived.

Standards for Denying Waivers for March, June, or September Filings*

Institutions meeting one of the following criteria would normally not be granted a waiver of the quarterly filing requirement. However, the PSA may require only semi-annual filings if this is more appropriate.

1A. The sum of the investment in service corporations subsidiaries and unsecured loans to service corporations/subsidiaries (TFR line A352 and TFR line A354) exceeds the greater of 5% of total assets as reported on TFR line A800 or twice the thrift institution's regulatory capital (TFR line C800 and TFR line K995).

2B. Income/(loss) from investment in service corporations as reported on the most current TFR line D170 exceeding .5% of regulatory capital or 25% of net income.

3C. Estimated GAAP and/or RAP insolvent thrift associations with significant risk and/or significant service corporation losses.

4D. Any other thrift associations whose service corporation/subsidiaries have activity levels or activity types or a combination thereof that may pose a significant risk to the parent thrift association.

* Line item references are based upon the June 1988, Thrift Financial Report and Service Corporation Report Forms. If changes to the Service Corporation forms are needed, they will be implemented once a year and for the December reporting requirement.

— Darrel W. Dochow, Executive Director