Office of Thrift Supervision

TB 13-2 was rescinded 12/01/89 by TB 13a. Click HERE to link to TB 13a

Thrift Bulletin

Handbook: Thrift Activities
Subjects: Interest Rate Risk Management

Section: 420
TB13-2

December 27, 1989

RESCINDED

Implementation of Thrift Bulletin 13

Summary: Savings associations with assets in excess of $500 million or with investments in high risk mortgage derivative products should comply with the December 31, 1989 deadline for computing the exposure measures required by Thrift Bulletin 13 (TB 13). Furthermore, those associations also should implement, by that date, all internal management policies, procedures, and systems necessary to assure compliance with the formal interest rate risk policies adopted by their boards of directors. All other savings associations may rely on exposure estimates provided by the Office of Thrift Supervision (OTS). These estimates, based on data reported as of December 31, 1989, will be available by March 31, 1990. Those savings associations will be expected to have fully implemented, by March 31, 1990, the formal interest rate risk policies adopted by their boards of directors.

For Further Information Contact: Your District Office or the OTS Surveillance & Analysis Division, Washington, D.C.

Thrift Bulletin 13-2

Thrift Bulletin 13 (TB 13), "Responsibilities of the Board of Directors and Management with Regard to Interest Rate Risk," issued on January 26, 1989, requires savings associations supervised by OTS to implement, by December 31, 1989, the interest rate risk management policies and procedures described in that Bulletin. Thrift Bulletin 13-2 provides further guidance on the implementation of those interest rate risk policies and procedures.

1. Policy Statements:

Boards of directors were to have adopted a formal interest rate risk management policy conforming to the guidelines in TB 13 by June 30, 1989. Associations without a formal policy are subject to supervisory action.

2. Measurement of Interest Rate Risk Exposure:

Savings associations with assets in excess of $500 million and those with investments in high risk mortgage derivative products (MDPs)[1] must calculate the exposure measures prescribed in TB 13 by December 31, 1989 and report those measures to their boards of directors.

For associations that are exempt from performing their own exposure measurement and that choose to rely on the OTS estimates, estimates of the interest rate sensitivity of the associations' market value of portfolio equity (MVPE) and net interest income,[2] based on data as of December 31, 1989, will be available from the Office of Thrift Supervision by March 31, 1990.

3. Compliance with Directors' Policy Statements:

Each savings association must develop internal management policies, procedures, and control systems to ensure compliance with its board's interest rate risk policy statement. Once the association has access to the requisite interest rate exposure measures, those policies, procedures, and control systems must become fully operational so that management may ensure compliance with the board's exposure limits.

The board of directors must exercise oversight over the association's interest rate risk exposure by reviewing the level of exposure relative to the association's exposure limits, the quality of the measurements, and the appropriateness of the exposure limits themselves. Full oversight by the board of directors of the measures and systems requirements prescribed in TB 13 should begin no later than December 31, 1989 for associations required to compute their exposure measures and by March 31, 1990 for all others.[3] As indicated in TB 13, OTS supervisory staff may require earlier implementation if warranted.

4. Supervising Compliance with TB 13:

During the first half of 1990, OTS examination and supervision personnel will focus primarily on:

- the existence of sound policies, procedures, and systems to facilitate compliance with an association's interest rate risk policy;
- the association's progress in achieving compliance with its internal exposure limits; and
- the quality of oversight being exercised by the board of directors over the association's interest rate risk exposure.

During the second half of 1990, these same requirements will continue to be evaluated, but there will be a presumption that all policies and procedures will be fully operational and integrated into the routine operations of the association. Also, during the second half of 1990, the reasonableness of the association's exposure limits will be subject to closer supervisory scrutiny.

5. Exemptions for Conservatorships and Receiverships:

The requirement to establish interest rate risk exposure limits has been waived for institutions that are in conservatorship or receivership. The Managing Agent has the authority and responsibility to manage the institution's interest rate risk exposure. Therefore, Managing Agents should measure, assess, and control that exposure and comply with all other guidelines prescribed in TB 13.

1/ "High risk mortgage derivative products" are defined in TB 12, "Mortgage Derivative Products and Mortgage Swaps," issued on December 13, 1988. The term includes the following: residual interest in collateralized mortgage obligations (CMOs) or real estate mortgage investment conduits (REMICs), stripped mortgage-backed securities, subordinated interests in pass-through securities with senior/subordinated structures, support tranches of planned amortization class (PAC) and targeted amortization class (TAC) bonds, Z-tranches, Super Floaters, Inverse Floaters, Super POs, mortgage swaps, and any other mortgage-related financial products characterized by a high degree of

2/ Because of data limitations on the current Section

— John F. Robinson
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