

Press Releases

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OTS 01-72 - OTS' Latest *Quarterly Review of Interest Rate Risk* Addresses Confusion over Structured Advances

Office of Thrift Supervision

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OTS' Latest Quarterly Review of Interest Rate Risk Addresses Confusion over Structured Advances

WASHINGTON - The Office of Thrift Supervision (OTS) has just published an article addressing the, at times, confusing area of Federal Home Loan Bank (FHLB) advances. The article, appearing in the latest issue of OTS' *Quarterly Review of Interest Rate Risk (the Review)*, made several points.

OTS-regulated institutions use FHLB advances to fund a large portion of their portfolios. Many of these advances are structured (i.e., they contain option features). Some of these are callable by the thrift institution, meaning they can be paid off early without penalty. A thrift pays a slightly higher rate for this privilege. To be consistent with FHLB regulations and OTS reporting instructions, such advances should be termed callable advances.

Another common structured advance gives the Home Loan Bank the right to demand early payoff. This is most likely to happen when market rates have risen. For granting the Home Loan Bank this privilege, the thrift institution gets to borrow at a lower rate. According to FHLB regulations and OTS reporting instructions, such advances should properly be called puttable advances, though they are sometimes mislabeled as callable advances.

Also, contrary to a common misconception, ordinary, or non-structured, FHLB advances may not be paid off early without a significant penalty.

This issue of the *Review* also contains data on interest rate risk in the thrift industry for the quarter ending June 30, 2001. A copy of the *Review* may be obtained by going to OTS website at www.ots.treas.gov, and then clicking on Data & Research, and then on Statistical Releases.

Quarterly Review of Interest Rate Risk - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2001-72a.pdf>

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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's 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 visit the OTS web page at www.ots.treas.gov.