§ 167.12 Purchased credit card relationships, serving assets, intangible assets (other than purchased credit card relationships and servicing assets), credit-enhancing interest-only strips, and deferred tax assets.

(a) Scope. This section prescribes the maximum amount of purchased credit card relationships, serving assets, intangible assets (other than purchased credit card relationships and servicing assets), credit-enhancing interest-only strips, and deferred tax assets that Federal savings associations may include in calculating tangible and core capital.

(b) Computation of core and tangible capital. (1) Purchased credit card relationships may be included (that is, not deducted) in computing core capital in accordance with the restrictions in this section, but must be deducted in computing tangible capital.

(2) In accordance with the restrictions in this section, mortgage servicing assets may be included in computing core and tangible capital and nonmortgage servicing assets may be included in core capital.

(3) Intangible assets, as defined in §167.1 of this part, other than purchased credit card relationships described in paragraph (b)(1) of this section, servicing assets described in paragraph (b)(2) of this section, and core deposit intangibles described in paragraph (g)(3) of this section, are deducted in computing tangible and core capital, subject to paragraph (e)(3)(ii) of this section.

(4) Credit-enhancing interest-only strips may be included (that is not deducted) in computing core capital subject to the restrictions of paragraph (h) of this section, and may be included in tangible capital in the same amount.

(5) Deferred tax assets may be included (that is not deducted) in computing core capital subject to the restrictions of paragraph (h) of this section, and may be included in tangible capital in the same amount.

(c) Market valuations. The OCC reserves the authority to require any Federal savings association to perform an independent market valuation of assets subject to this section on a case-by-case basis or through the issuance of policy guidance. An independent market valuation, if required, shall be conducted in accordance with any policy guidance issued by the OCC. A required valuation shall include adjustments for any significant changes in original valuation assumptions, including changes in prepayment estimates or attrition rates. The valuation shall
determine the current fair value of assets subject to this section. This independent market valuation may be conducted by an independent valuation expert evaluating the reasonableness of the internal calculations and assumptions used by the association in conducting its internal analysis. The association shall calculate an estimated fair value for assets subject to this section at least quarterly regardless of whether an independent valuation expert is required to perform an independent market valuation.

(d) Value limitation. For purposes of calculating core capital under this part (but not for financial statement purposes), purchased credit card relationships and servicing assets must be valued at the lesser of:

(1) 90 percent of their fair value determined in accordance with paragraph (c) of this section; or
(2) 100 percent of their remaining unamortized book value determined in accordance with the instructions for the Call Report or TFR, as appropriate.

(e) Core capital limitations—(1) Servicing assets and purchased credit card relationships. (i) The maximum aggregate amount of servicing assets and purchased credit card relationships that may be included in core capital is limited to the lesser of:

(A) 100 percent of the amount of core capital; or
(B) The amount of servicing assets and purchased credit card relationships determined in accordance with paragraph (d) of this section.

(ii) In addition to the aggregate limitation in paragraph (e)(1)(i) of this section, a sublimit applies to purchased credit card relationships and non mortgage-related serving assets. The maximum allowable amount of these two types of assets combined is limited to the lesser of:

(A) 25 percent the amount of core capital; and
(B) The amount of purchased credit card relationships and non mortgage-related serving assets determined in accordance with paragraph (d) of this section.

(2) Credit-enhancing interest-only strips. The maximum aggregate amount of credit-enhancing interest-only strips that may be included in core capital is limited to 25 percent of the amount of core capital. Purchased and retained credit-enhancing interest-only strips, on a non-tax adjusted basis, are included in the total amount that is used for purposes of determining whether a Federal savings association exceeds the core capital limit.

(3) Computation. (i) For purposes of computing the limits and sublimits in paragraphs (e) and (h) of this section, core capital is computed before the deduction of disallowed servicing assets, disallowed purchased credit card relationships, disallowed credit-enhancing interest-only strips (purchased and retained), and disallowed deferred tax assets.

(ii) A Federal savings association may elect to deduct the following items on a basis net of deferred tax liabilities:

(A) Disallowed servicing assets;
(B) Goodwill such that only the net amount must be deducted from Tier 1 capital;
(C) Disallowed credit-enhancing interest only strips (both purchased and retained); and
(D) Other intangible assets arising from non-taxable business combinations. A deferred tax liability that is specifically related to an intangible asset (other than purchased credit card relationships) arising from a non-taxable business combination may be netted against this intangible asset. The net amount of the intangible asset must be deducted from Tier 1 capital.

(iii) Deferred tax liabilities that are netted in accordance with paragraph (e)(3)(ii) of this section cannot also be netted against deferred tax assets when determining the amount of deferred tax assets that are dependent upon future taxable income.

(f) Tangible capital limitation. The maximum amount of mortgage servicing assets that may be included in tangible capital shall be the same amount includable in core capital in accordance with the limitations set by paragraph (e) of this section. All non-mortgage servicing assets are deducted in computing tangible capital.

(g) Exemption for certain subsidiaries—(1) Exemption standard. An association holding purchased mortgage servicing
rights in separately capitalized, non-includable subsidiaries may submit an application for approval by the OCC for an exemption from the deductions and limitations set forth in this section. The deductions and limitations will apply to such purchased mortgage servicing rights, however, if the OCC determines that:

(i) The thrift and subsidiary are not conducting activities on an arm’s length basis; or

(ii) The exemption is not consistent with the association’s safe and sound operation.

(2) Applicable requirements. If the OCC determines to grant or to permit the continuation of an exemption under paragraph (h)(1) of this section, the association receiving the exemption must ensure the following:

(i) The association’s investments in, and extensions of credit to, the subsidiary are deducted from capital when calculating capital under this part;

(ii) Extensions of credit and other transactions with the subsidiary are conducted in compliance with the rules for covered transactions with affiliates set forth in sections 23A and 23B of the Federal Reserve Act, as applied to thrifts; and

(iii) Any contracts entered into by the subsidiary include a written disclosure indicating that the subsidiary is not a bank or Federal savings association; the subsidiary is an organization separate and apart from any bank or Federal savings association; and the obligations of the subsidiary are not backed or guaranteed by any bank or Federal savings association and are not insured by the FDIC.

(h) Treatment of deferred tax assets. For purposes of calculating Tier 1 capital under this part (but not for financial statement purposes) deferred tax assets are subject to the conditions, limitations, and restrictions described in this section.

(1) Tier 1 capital limitations. (i) The maximum allowable amount of deferred tax assets net of any valuation allowance that are dependent upon future taxable income will be limited to the lesser of:

(A) The amount of deferred tax assets that are dependent upon future taxable income that is expected to be realized within one year of the calendar quarter-end date, based on a projected future taxable income for that year; or

(B) Ten percent of the amount of Tier 1 capital that exists before the deduction of any disallowed servicing assets, any disallowed purchased credit card relationships, any disallowed credit-enhancing interest-only strips, and any disallowed deferred tax assets.

(ii) For purposes of this limitation, all existing temporary differences should be assumed to fully reverse at the calendar quarter-end date. The recorded amount of deferred tax assets that are dependent upon future taxable income, net of any valuation allowance for deferred tax assets, in excess of this limitation will be deducted from assets and from equity capital for purposes of determining Tier 1 capital under this part. The amount of deferred tax assets that can be realized from taxes paid in prior carryback years and from the reversal of existing taxable temporary differences generally would not be deducted from assets and from equity capital.

(iii) Notwithstanding paragraph (h)(1)(B)(ii) of this section, the amount of carryback potential that may be considered in calculating the amount of deferred tax assets that a Federal savings association that is part of a consolidated group (for tax purposes) may include in Tier 1 capital may not exceed the amount which the association could reasonably expect to have refunded by its parent.

(2) Projected future taxable income. Projected future taxable income should not include net operating loss carryforwards to be used within one year of the most recent calendar quarter-end date or the amount of existing temporary differences expected to reverse within that year. Projected future taxable income should include the estimated effect of tax planning strategies that are expected to be implemented to realize tax carryforwards that will otherwise expire during that year. Future taxable income projections for the current fiscal year (adjusted for any significant changes that have occurred or are expected to occur) may be used when applying the capital limit at an interim calendar quarter-
end date rather than preparing a new projection each quarter.

(3) Unrealized holding gains and losses on available-for-sale debt securities. The deferred tax effects of any unrealized holding gains and losses on available-for-sale debt securities may be excluded from the determination of the amount of deferred tax assets that are dependent upon future taxable income and the calculation of the maximum allowable amount of such assets. If these deferred tax effects are excluded, this treatment must be followed consistently over time.

§§ 167.14–167.19 [Reserved]

APPENDIXES A–B TO PART 167
[RESERVED]

APPENDIX C TO PART 167—RISK-BASED CAPITAL REQUIREMENTS—INTERNAL-RATINGS-BASED AND ADVANCED MEASUREMENT APPROACHES

Part I. General Provisions

Section 1 Purpose, Applicability, Reservation of Authority, and Principle of Conservatism

Section 2 Definitions

Section 3 Minimum Risk-Based Capital Requirements

Part II Qualifying Capital

Section 11 Additional Deductions

Section 12 Deductions and Limitations Not Required

Section 13 Eligible Credit Reserves

Part III Qualification

Section 21 Qualification Process

Section 22 Qualification Requirements

Section 23 Ongoing Qualification

Section 24 Merger and Acquisition Transitional Arrangements

Part IV Risk-Weighted Assets for General Credit Risk

Section 31 Mechanics for Calculating Total Wholesale and Retail Risk-Weighted Assets

Section 32 Counterparty Credit Risk of Repo-Style Transactions, Eligible Margin Loans, and OTC Derivative Contracts

Section 33 Guarantees and Credit Derivatives: PD Substitution and LGD Adjustment Approaches

Section 34 Guarantees and Credit Derivatives: Double Default Treatment

Section 35 Risk-Based Capital Requirement for Unsettled Transactions

Part V Risk-Weighted Assets for Securitization Exposures

Section 41 Operational Criteria for Recognizing the Transfer of Risk

Section 42 Risk-Based Capital Requirement for Securitization Exposures

Section 43 Ratings-Based Approach (RBA)

Section 44 Internal Assessment Approach (IAA)

Section 45 Supervisory Formula Approach (SFA)

Section 46 Recognition of Credit Risk Mitigants for Securitization Exposures

Section 47 Risk-Based Capital Requirement for Early Amortization Provisions

Part VI Risk-Weighted Assets for Equity Exposures

Section 51 Introduction and Exposure Measurement

Section 52 Simple Risk Weight Approach (SRWA)

Section 53 Internal Models Approach (IMA)

Section 54 Equity Exposures to Investment Funds

Section 55 Equity Derivative Contracts

Part VII Risk-Weighted Assets for Operational Risk

Section 61 Qualification Requirements for Incorporation of Operational Risk Mitigants

Section 62 Mechanics of Risk-Weighted Asset Calculation

Part VIII Disclosure

Section 71 Disclosure Requirements

Part IX Transition Provisions

Section 81 Optional Transition Provisions Related to the Implementation of Consolidation Requirements Under FAS 167

PART I. GENERAL PROVISIONS

Section 1. Purpose, Applicability, Reservation of Authority, and Principle of Conservatism

(a) Purpose. This appendix establishes: