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Texas Department of
Savings and Mortgage Lending

From: Caroline C. Jones, Deputy Commissioner/General Counsel
To: State Savings Bank Executives

Proposed Rules Relating to Derivatives and Legal Lending Limit

September 11, 2012

If your bank has chosen to follow state lending limit laws and rules, these proposed rules could impact your institution.

The Texas Department of Banking has published for comment proposed rules relating to derivatives and the state legal lending limit. The comment period ends at 5:00 p.m. on October 1, 2012. Instructions for submitting a comment are found in the preamble to the proposed rules.

The proposed rules are published in the Texas Register at 37TexReg 6836 – 6845.

http://www.sos.state.tx.us/texreg/pdf/backview/0831/0831prop.pdf

Action by the Finance Commission to adopt the proposed rules will be delayed until the commission meets on December 14, 2012.

The rules are proposed for the purpose of applying the state lending limit to certain credit exposures arising from derivative and securities financing transactions, to enhance safety and soundness of banks through quantifying and limiting credit risk incurred in off-balance sheet investment and financing activity, as well as to accommodate new requirements and other changes in federal law.

Effective January 21, 2013, Section 611 of the Dodd-Frank Act prohibits state banks from engaging in derivative transactions unless “the law with respect to lending limits of the State in which the insured State bank is chartered takes into consideration credit exposure to derivative transactions”.

Please refer to the website above for the Department of Banking’s detailed background, description of the proposed rules, and the proposed rules.

For further information, contact Caroline Jones at 512/475-1038 or cjones@sml.texas.gov.