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May 15, 2001

Manager, Dissemination Branch
Information Management and Services Division
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attn: Docket No. 2001-14

Re: Capital: Qualifying Mortgage Loan, Interest Rate Risk Component and
Miscellaneous Changes
66 FR 15049 (March 15, 2001) Docket No. 2001-14

Dear Sir or Madam:

America's Community Bankers (ACB)¹ is pleased to comment on the proposal issued by the Office of Thrift Supervision (OTS) requesting comment on a number of proposed changes to the agency's capital regulations.

ACB supports the proposed changes. To further facilitate implementation and compliance, we suggest that several changes be made. We believe that these changes will provide additional benefits to savings associations originating mortgage loans.

General

Home mortgage lending, construction and land financing remain the dominant investment category for savings associations. For example, ACB's 2000 Real Estate Lending Survey indicates that for the year 2000, community banks originated and retained a higher percentage of their assets than in the recent past.²

Moreover, mortgage loans at higher loan to value (LTV) ratios have become an increasingly popular product among home purchasers. Perhaps encouraged by the predictive powers and the more frequent use of automated underwriting tools, many mortgage loan investors are willing to extend credit at higher LTV ratios. Thus the proposed lower risk-weighting for these assets will enable OTS-regulated institutions to respond to consumer demand, consistent with prudent underwriting and current industry practices.

¹ ACB represents the nation's community banks of all charter types and sizes. ACB members pursue progressive, entrepreneurial and service-oriented strategies in providing financial services to benefit their customers and communities.

² America's Community Bankers 2000 Real Estate Lending Survey, February 2001, pgs. 4, 9, 11 and Tables 2, 3, 4 & 5.

Further, increased competition for all types of home mortgage and home equity loans has resulted in a narrowing of profit margins. If adopted, the proposal will help to improve the profitability and the attractiveness of home mortgage lending and related construction and acquisition financing vis a vis other types of lending with higher returns and associated risks.

90 Percent LTV

We strongly recommend that the OTS amend the language in the proposal to reflect that loans with 90 percent or lower LTV be placed in the 50 percent risk-weight category. Under the proposal, a loan with an 89 percent LTV would be placed in the lower risk weight category but a loan with the 90 percent LTV would not. Failure to include 90 percent LTV loans in the 50 percent risk-weight would be inconsistent with the stated purpose and objectives of the proposal.

Because of the underwriting guidelines used in home mortgage lending and private mortgage insurance underwriting, 90 percent LTV is the threshold for a variety of loan programs. Changing the language to 90 percent or lower would help achieve better alignment of capital requirements to risks by defining the risk-weight classes of home mortgage loans as they are defined in the marketplace. Such a change may help to avoid manipulation of the loan amount and the possible confusion to consumers that would result, while achieving a truer correlation of risk and capital requirements and better coordination of the OTS regulations with similar requirements of other federal banking regulators.

LTV ratios are not a true measure of risk and we do not know of evidence that suggests there is a direct relationship between the collateral exposure, as measured by LTV, and the likelihood of serious delinquency and default. The underwriting tools and techniques employed in the origination of home mortgage loans have considerably better predictive powers than the simple debt to income and LTV ratios commonly used in past decades. Other supervisory guidance on high risk home mortgage lending already provides for the measurement and treatment of loans with higher risk profiles.

Increasing the potential universe of loans receiving lower risk-weight treatment as a result of using a 90 percent LTV and below standard rather than the below 90 percent standard would not adversely reduce the capital support for loans with higher risk profiles.

Retention of LTV Requirement

We recognize that the other federal banking regulators do not use LTV ratios in setting risk-weighted capital requirements. However, because of the greater concentration of home mortgage loans within the portfolios of OTS-regulated institutions, the additional standard has merit and we believe it should be retained. We also suggest that consideration could be given to even lower risk weighting for loans with very low LTV's. There is precedent for this elsewhere in supervisory

guidance. The Federal Financial Institution Examination Council's policy statement on retail credit classification provides for a less stringent classification requirement for consumer real estate loans with a LTV of 60 percent or less.³

Having the LTV standard as part of the capital requirements establishes a rational basis for creating additional risk weight categories beyond the current 50 percent or 100 percent alternatives. We therefore suggest that consideration be given to a further refinement of the capital requirements; one that is based more precisely on the level of risk as measured by the LTV ratio. For example, in its letter responding to the proposal issued by the federal banking agencies requesting comment on a simplified capital structure for noncomplex institutions, ACB suggested several areas in which the risk weighting of certain assets could be lowered to better reflect the true nature of the risk. We believe that a more tailored approach to the capital calculation can be developed.

ACB encourages the OTS and federal banking agencies to consider changes, but not at the expense of appropriate risk management or the competitive position of these banks and savings institutions. Examples of such changes include:

- Lowering the risk weighting of residential mortgage loans that have a loan-to-value ratio of 60 percent or less to better reflect the true risk of a highly collateralized, appraised loan.
- Lowering the risk weighting of commercial real estate loans that have a loan-to-value of 50 percent or less to better reflect the true risk of a highly collateralized, appraised loan.
- Lowering the risk weighting of collateralized commercial loans that have loan-to-value ratios of 30 percent or less.
- Lowering the risk weighting associated with construction loans that are collateralized by pre-sold, versus, speculative properties.

Other Measures

The OTS asks a question in the preamble to the proposal on the subject of other measures of risk on which the capital requirements might be based. Clearly LTV ratio is not the only or necessarily the most comprehensive basis for estimating the risk of real estate-secured loans. Because it is simply a measure of the collateral margin of protection, it does nothing to directly assess the risks of repayment based on the primary repayment source, the borrower and the borrower's willingness and capacity to repay.

³ Uniform Retail Credit Classification and Account Management Policy, FFIEC Final Notice, 65 Fed. Reg. 36903, June 12, 2000.

No single measure is completely adequate and current automated underwriting technology employs a layering and balancing of risk factors to make similar assessments. Such technology tools could be used for assigning risk weighting, however we do not recommend consideration of an alternate for two reasons.

First, these techniques are evolving and there is little uniform agreement on measuring points. Further, the use of such tools would disadvantage very small entities that may not be equipped to access and use them easily. The LTV ratio also measures the borrower's financial interest in the property, something that has been found to reflect the probability of successful repayment. On balance it is a basis that can be used universally and is a reasonable proxy for risk.

Alternatives to PMI

As to the question of whether alternative forms of credit enhancement should be considered in placing a loan in a risk weight category, we suggest that there are examples elsewhere that support the use of alternatives to PMI. An example of another regulation that recognizes the risk mitigation of pledged collateral is the regulation on maximum loans to one borrower.⁴ This requirement provides a starting point for consideration of alternatives and may encourage institutions to explore alternatives to traditional private mortgage insurance and could lead to innovation and creativity in meeting borrower credit needs in a way that would not expose the institution or the deposit insurance funds to additional risk.

Reclassification

We suggest the inclusion of an option to reclassify loans from a higher to a lower risk weight category. Loans, which through principal amortization or prepayment, qualify for lower risk weight treatment should be eligible for reclassification. Similarly loans, which through property improvements or market appreciation, should also be eligible when such action is supported by a reliable measure of current value consistent with regulatory appraisal and valuation requirements.⁵

Pursuant to requirements of the Homeowners Protection Act of 1998,⁶ savings associations are required to revisit loan transactions with private mortgage insurance when the risk characteristics have materially changed. Thus there is both practical and public policy support for the change.

In implementing such a provision, we recommend that a minimum period or seasoning requirement be added. Such a requirement would help to insulate the institution from short-term increases in value due to real estate market fluctuations

⁴ 12 CFR 560.93(c)(1) & (2).

⁵ 12 CFR 564 Appraisals and Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve Board, Office of Thrift Supervision-Interagency Appraisal and Evaluation Guidelines, October 27, 1994.

⁶ Public Law 105-216, July 29, 1998.

or aberrations. Mortgage investors generally consider a two-year period as a minimum "seasoning" period.⁷

Conversely, we feel there is no basis for considering the need to reclassify to a higher risk-weight category loans in light of declining real estate values generally. Conventional wisdom among mortgage lenders and investors holds that as a loan seasons, the collateral dependence decreases as timely repayment is made. Stated another way, a loan is most collateral dependent at inception and that any fluctuation in collateral value is offset by the established track record. Beyond that, in those cases where performance has not been satisfactory, Generally Accepted Accounting Practices and regulations on asset classification requirements mandate identification, write down or general provision for loan losses.

Negatively Amortizing Loans

We believe that negatively amortizing loans originated at LTVs of 90 percent or below should be placed in the 50 percent risk weight category when the negative amortization is the result solely of deferred and capitalized interest. This form of negative amortization is limited to circumstances which, while increasing the collateral risk somewhat, is offset by the stabilizing affect on the borrower and the borrower's ability to service the loan during historically limited periods of unusual interest rate stress.

Conversely, loans, which by design negatively amortize as a routine and predictable matter, should not be allocated to the lower risk weight category. Such loans are known to pose additional collateral risk over time and therefore the transaction poses identifiable extra-ordinary risk which can and should be addressed at origination in the associated capital requirements.

Treatment of Loan and Construction Loans

We agree that it is appropriate to assign additional capital requirements to certain construction and land acquisition loans, which exceed supervisory LTV guidelines at origination. However, we note that these guidelines do not adequately address all classes of land acquisition loans in the marketplace. The capital requirements provide norms for "Raw land" and "Land development" loans but provide no guidance on fully improved or "finished" lots.⁸ Loans on finished lots are not subject to the development risks of land development loans and frequently are made by community banks as part of builder relationships and construction lending programs. Through the amendments to the OTS's capital rules, this apparent oversight can be addressed by assigning a 50 percent risk weight to loans secured by fully improved single-family building lots with LTVs ratios of 80 percent or less.

⁷ Fannie Mae Announcement 99-13, Attachment 1, Pg. 4, Borrower-Initiated Cancellation of Mortgage Insurance Based on Current Value, issued December 10, 1999.

⁸ 12 CFR-Appendix to 560.101, Interagency Guidelines to Real Estate Lending Policies, Supervisory loan to value limits.

We agree that the current requirement to exclude from assets (and therefore from computations of total capital) that portion of a nonresidential construction or land loan that is above an 80 percent LTV ratio seems excessive. We agree with the OTS that this requirement was established as an interim measure to discourage this type of lending at a time when some institutions experienced significant losses in this type of transaction. Subsequent to the adoption of this requirement, uniform regulations were adopted which require the institution to adopt and maintain internal real estate lending policies which meet certain minimum standards and very specific guidance was provided for their scope and content.⁹ With these additional requirements in place, the current OTS capital requirement should be viewed as inconsistent with the treatment of similar loans by other federal banking regulators and a detriment to the origination of loans in an area of core competency for OTS-regulated and supervised institutions.

Interest Rate Risk

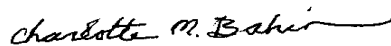
ACB supports the deletion of the provision in the agency's capital regulation that requires an explicit capital deduction from total capital for the purposes of the risk-based capital requirement for those savings associations with above normal levels of interest rate risk. The federal banking agencies never adopted a comparable requirement and provision has never been effective. We agree with the OTS that the tools developed and used by the agency to monitor interest rate risk satisfy the statutory requirement that the agencies develop a capital standard that takes adequate account of interest rate risk.

Conclusion

We commend the OTS for taking the initiative to propose amendments to its risk-based capital requirements.¹⁰ These amendments, if modified, will strengthen and perhaps encourage real estate lending by OTS-regulated entities without exposing the institutions or the deposit insurance funds to additional or undue risk.

ACB appreciates the opportunity to comment on this important matter. If you have any questions, please contact Sam Pincich at (202) 857-129.

Sincerely,



Charlotte M. Bahin
Director of Regulatory Affairs
Senior Regulatory Counsel

Attachments

⁹ 12 CFR 560.100 and 560.101.

¹⁰ 12 CRR 567, 567.1, 567.5 and 567.6.

**AMERICA'S COMMUNITY BANKERS
2000 REAL ESTATE LENDING SURVEY**

PREFACE

February 2001

America's Community Bankers has conducted an annual survey of real estate lending practices and community banking trends in loan production and sales to the secondary market since 1993. For the first time, ACB is issuing a formal report on the survey results, and making the report publicly available.

The survey report was compiled from information provided by 223 participating community banks through a questionnaire distributed in the fourth quarter of 2000—based on information through the third quarter of 2000. The data collected were analyzed according to asset size, charter, ownership type and geographic region.

This report is divided into three sections:

- Analysis and Executive Summary
- Statistical Tables
- Appendix: Survey Instrument

As always, we welcome any comments or questions. Please contact Steven Davidson, financial economist for ACB, by telephone at (202) 857-3158, by e-mail at sdavidson@acbankers.org or in writing at 900 19th Street N.W., Suite 400, Washington, D.C. 20006.

date numbers. For the 208 community banks that responded to this question, the total origination volume was approximately \$10 billion (see Table 4), with the median bank originating a volume of about \$25 million.

As the survey population changes from year to year, it is difficult to make direct comparisons of the origination or loan production volume reported to earlier surveys. To gain some level of comparability, though, the average origination volume (total volume divided by responding banks) was compared. The "average" origination volume was slightly lower in 2000 than the previous two years.

A second way of measuring mortgage origination volume is the ratio of total mortgage originations to total community bank assets. The percentage of mortgage originations to assets was higher in 2000 than in 1999, based on the two years' survey results.

We should keep in mind that mortgage rates started to rise in the early part of 1999, and (especially in 1998), there was a high refinancing volume. Moreover, the average asset size of responding community banks was smaller in 2000 than in 1999.

Secondary Market Activity: Community Banks Increase Portfolio Lending Focus in 2000

Trends with respect to sales into the secondary market reflect the interest rate environment and community bank strategic responses. During the low rate environment through early 1999, community banks tended to follow more of a mortgage banking strategy of originating and selling substantial numbers of their originations into the secondary market (see Fig. 1 below). As rates rose, the broad trend in the community banking industry was to focus more on portfolio lending strategies—that is, originating and holding mortgages in portfolio.

The 2000 survey found community banks holding larger volumes of originations in portfolio compared to the last several years. For example, the percentage of loan production retained in portfolio increased from 52 percent to 79 percent between 1998 and 2000. This trend is similar to the trend that the survey found during previous rising interest rate episodes in the early- to mid-1990s—for example, between 1993 and 1994, when sales to the secondary market declined from 43 percent to 24 percent of production volume. When the interest rate environment changed, the volume of secondary activity at community banks responded (see Fig. 1 below).

The impact of the interest rate environment is reflected in secondary market sales activity. The percentage of community banks selling to the government-sponsored enterprises (or GSEs) Fannie Mae and Freddie Mac dipped in 2000, though Freddie Mac retained a larger relative share (see Table 6). The relative shares were fairly constant among asset size groups less than \$1 billion (the same number of institutions, however, indicated that they sold to Fannie Mae and Freddie Mac in the \$1 billion and larger asset size category).

One of the most significant trends is the continued growing share of sales to conduits and wholesalers, which increased from 13 percent in 1996 to 22 percent in 2000 (see Fig. 2 below). Conduits may purchase those loans that conform to Freddie Mac and Fannie Mae criteria (i.e., conforming loans) and nonconforming loans. The growth in sales to conduits is part of a trend we have seen through the entire survey series (dating back to the early 1990s). Many of the conforming loans purchased by conduits and other wholesalers are ultimately repackaged and sold to Fannie Mae and Freddie Mac.

E. ARM Pricing and the Treasury Index

Larger Community Banks Especially Are Looking at the Treasury Scarcity Issue

A long-term implication of the budget surplus and the smaller volume of Treasury securities outstanding, which was addressed in the "Placing Survey Results in Perspective: The Economic and Interest Rate Environment in 2000" section of this analysis, is the future of Treasury securities as the benchmark for pricing adjustable rate mortgage loan products. As the majority of ARMs have been priced off of U.S. Treasury securities, the issue of finding a substitute benchmark may very well be an important one for the mortgage finance business in the years ahead.

As the volume of Treasuries is expected to decline even more significantly in future years, the question becomes whether there are appropriate substitutes. The FHLB 11th District cost of funds—and to a limited extent the Office of Thrift Supervision cost of funds—have been substitutes. Some community banks have raised concerns over how these indexes match their own cost of funds, and what that means for interest rate management. Fannie Mae bonds have been the most prominently suggested alternative. Federal Home Loan Bank advances may also become a popular benchmark index. The LIBOR, another alternative, has global acceptance and is used in various instruments including swaps. This poses a marketing challenge: Will consumers accept mortgages priced off of something called the London Interbank Offered Rate?

This year, the survey addressed the topic of the future of Treasuries as the benchmark index for pricing ARMs. The survey found that 77 percent of the responding community banks use Treasuries to price ARMs, and the percentages increase with asset size (91 percent in the \$500 million to \$1 billion asset category, and 83 percent in the more than \$1 billion asset group) (see Table 16).

The issue about the effect of a dwindling outstanding volume of Treasuries and the associated price volatility of Treasury-based indexes is a concern to a significant portion of the surveyed community bankers, though not a majority. The concern and, presumably, the awareness of the issue increases with asset size. The concern may also be a reflection of the relative importance of ARM products, and current use of a Treasury index, to the community banker. Approximately 20 percent of total respondents indicate that it is a concern—compared to 56 percent who are not concerned and 23 percent who are not sure. The concern is most pronounced among the larger community bank respondents. More than half of the community banks over \$1 billion assets, and about a third of the banks in the \$500 million to \$1 billion asset categories, indicated concern about the ARM index pricing issue (see Table 17).

F. Loan Purchasing Activity

Depending on the competitive environment, confidence in other lenders' underwriting standards and the demand for mortgages in the local market, purchasing a mortgage can be an appealing investment alternative to the community banker. Buying other institutions' originations may either offer higher yields than the alternative of investing in securities, or may offer an alternative to expanding a community bank's loan origination production under certain circumstances and strategies. A significant number of community banks bought loans in 2000.

Nearly a quarter (24 percent) of the respondents purchased mortgages in 2000, according to the survey. The proportion of community banks that purchased mortgages generally increased with asset

origination software market appears to be diffuse and quite competitive, with 21 software products mentioned by at least 1 percent of the responding community banks. Three automated loan origination system products did capture at least 10 percent "market share," as they were mentioned by at least 10 percent of the community banks. Sound Software's Winmort was mentioned by 18 percent, Contour by 12 percent and Fiserv's Easy Lender by 10 percent (see Table 26).

Few Banks are Using Servicing and Collection Software

The final mortgage technology question asked in the survey was whether a behavioral scoring model was used to manage the performance of servicing and collection. At present, this was not a common practice among the community bank respondents—with only 4 percent indicating that they use a behavioral scoring model (see Table 27). One of the challenges in the years ahead is automation of the real estate lending process, linking underwriting and origination software and ultimately lending servicing software as well.

H. Trends in the Loan Portfolio Mix

First Trusts Still Dominate Community Bank Loan Portfolios; A Trend Towards Diversification

There has been a great deal of discussion about real estate loan diversification among community banks. While residential lending remains the core of many community banks' lending strategies, expanding in real estate lending products, and even nonmortgage lending, offer the potential of higher yields (though with perhaps more credit risk exposure) as residential loans become more of a commodity product with the corresponding yield compression. Moreover, financial theory tells us that diversification spreads and reduces credit exposure, and reduces the risk of concentrating in one sector of the market.

The survey asked the banks to describe their current loan portfolio mix and the anticipated loan mix one year hence. The community banks responded that they would continue to be predominantly real estate lenders, with over 90 percent of the portfolio invested in mortgages. While mortgages are expected to continue to dominate the loan mix, there is a subtle trend towards diversification within the real estate product area. The average proportion of single-family residential mortgages are projected to marginally decline 2 percentage points (to 70 percent), with commercial real estate lending expected to grow the most among the other real estate lending products in percentage terms (from about 8.46 percent to 9.73 percent) (see Tables 28-30).

Loan Production*(Table 2)*

Bank Asset Size	Total Loan Production Volume (Number of Loans)			Total Loan Production Value (Dollar Value)		
	Bottom Quartile	Median	Top Quartile	Bottom Quartile	Median	Top Quartile
<\$50 million	31	56	80 (21)	\$ 1,774,000	\$ 3,172,000	\$ 4,382,000 (23)
\$50-100 million	91	137	194 (29)	\$ 4,421,000	\$ 11,164,000	\$ 15,241,000 (28)
\$101-200 million	90	161	243 (46)	\$ 9,842,000	\$ 16,942,000	\$ 30,590,000 (45)
\$201-300 million	133	286	359 (22)	\$ 18,434,000	\$ 26,822,000	\$ 32,522,000 (22)
\$301-500 million	149	265	426 (39)	\$ 20,232,000	\$ 31,625,000	\$ 50,573,000 (39)
\$501 million to 1 billion	213	350	569 (34)	\$ 27,379,000	\$ 44,086,000	\$ 80,192,000 (34)
More than \$1 billion	1132	1848	2073 (15)	\$ 100,512,000	\$ 183,922,000	\$ 703,522,000 (13)

Note: Numbers in parentheses indicate the number of responses. Total sample was of 259 overall respondents, averaging to \$24,678,000.

Loan Production and Sales (Number of Loans):
Total and By Bank Assets

(Table 3)

For the period selected, how much of your institution's total residential mortgage loan production (both in terms of numbers and dollar values) was sold to each of the following? If none were sold to a particular entity, please enter zero. (Survey Questions 10-33 responses reflected in Tables 3-7)

	Number of Loans	As % of Originations	As % of Sales
Total Originations	81,706	100%	
Sold to Fannie Mae	1,653	2%	9%
Sold to Freddie Mac	3,244	4%	18%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	10,064	12%	56%
Sold to Other Financial Institutions	3,020	4%	17%
Retained	63,725	78.0%	N/A
Bank Asset Groupings			
<\$50 Million			
Total Originations	1,749	100%	
Sold to Fannie Mae	-	0%	0%
Sold to Freddie Mac	20	1%	4%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	10	1%	2%
Sold to Other Financial Institutions	426	24%	93%
Retained	1,293	74%	N/A
\$50 - \$100 Million			
Total Originations	3,950	100%	
Sold to Fannie Mae	4	0%	2%
Sold to Freddie Mac	138	3%	61%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	32	1%	14%
Sold to Other Financial Institutions	51	1%	23%
Retained	3,725	94%	N/A
\$101 - \$200 Million			
Total Originations	9,337	100%	
Sold to Fannie Mae	400	4%	44%
Sold to Freddie Mac	211	2%	23%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	181	2%	20%
Sold to Other Financial Institutions	113	1%	12%
Retained	8,432	90%	N/A

Loan Production and Sales (Number of Loans):
Total and By Bank Assets

(Table 3 continued)

	Number of Loans	As % of Originations	As % of Sales
\$201 - \$300 Million			
Total Originations	12,198	100%	
Sold to Fannie Mae	396	3%	14%
Sold to Freddie Mac	1,240	10%	45%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	1,097	9%	40%
Sold to Other Financial Institutions	12	0%	0%
Retained	9,453	77%	N/A
\$301 - \$500 Million			
Total Originations	14,346	100%	
Sold to Fannie Mae	313	2%	10%
Sold to Freddie Mac	681	5%	22%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	1,558	11%	51%
Sold to Other Financial Institutions	514	4%	17%
Retained	11,280	79%	N/A
\$501 Million - \$1 Billion			
Total Originations	17,921	100%	
Sold to Fannie Mae	270	2%	5%
Sold to Freddie Mac	477	3%	9%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	3,593	20%	68%
Sold to Other Financial Institutions	952	5%	18%
Retained	12,629	70%	N/A
>\$1 Billion			
Total Originations	22,205	100%	
Sold to Fannie Mae	270	1%	5%
Sold to Freddie Mac	477	2%	9%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	3,593	16%	68%
Sold to Other Financial Institutions	952	4%	18%
Retained	16,913	76%	N/A

Note 1: In the "As % of Originations" column, the sum of the percentages of loans retained plus sales to Fannie Mae, Freddie Mac, Conduits and Wholesalers and Other Financial Institutions may not equal 100 percent, due to rounding.

Note 2: In the "As % of Sales" column, the sum of the percentages of sales to Fannie Mae, Freddie Mac, Conduits and Wholesalers and Other Financial Institutions may not equal 100 percent, due to rounding.

Loan Production and Sales (\$ Volume):
Total and By Bank Assets

(Table 4)

	In 1,000s of Dollars	As % of Originations	As % of Sales
Total Originations	\$ 10,182,441	100%	
Sold to Fannie Mae	208,092	2%	12%
Sold to Freddie Mac	359,264	4%	21%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	891,969	9%	51%
Sold to Other Financial Institutions	274,579	3%	16%
Retained	8,448,537	83%	N/A
Asset Size Groupings			
<\$50 Million			
Total Originations	\$ 114,337	100%	
Sold to Fannie Mae	1,089	1%	24%
Sold to Freddie Mac	-	0%	0%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	3,465	3%	76%
Sold to Other Financial Institutions	-	0%	0%
Retained	109,783	96%	N/A
\$50 - \$100 Million			
Total Originations	\$ 328,065	100%	
Sold to Fannie Mae	971	0%	5%
Sold to Freddie Mac	8,729	3%	42%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	3,946	1%	19%
Sold to Other Financial Institutions	7,240	2%	35%
Retained	307,179	94%	N/A
\$101 - \$200 Million			
Total Originations	\$ 857,566	100%	
Sold to Fannie Mae	37,788	4%	36%
Sold to Freddie Mac	29,021	3%	28%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	22,245	3%	21%
Sold to Other Financial Institutions	14,717	2%	14%
Retained	753,795	88%	N/A

Loan Production and Sales (\$ Volume):
Total and By Bank Assets

(Table 4 continued)

	In 1,000s of Dollars	As % of Originations	As % of Sales
\$201 - \$300 Million			
Total Originations	\$ 713,698	100%	
Sold to Fannie Mae	22,066	3%	28%
Sold to Freddie Mac	21,402	3%	27%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	8,064	1%	10%
Sold to Other Financial Institutions	26,680	4%	34%
Retained	635,486	89%	N/A
\$301 - \$500 Million			
Total Originations	\$ 1,475,414	100%	
Sold to Fannie Mae	50,439	3%	17%
Sold to Freddie Mac	117,391	8%	40%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	118,478	8%	41%
Sold to Other Financial Institutions	5,039	0%	2%
Retained	1,184,067	80%	N/A
\$501 Million - \$1 Billion			
Total Originations	\$ 2,041,221	100%	
Sold to Fannie Mae	37,800	2%	11%
Sold to Freddie Mac	87,629	4%	25%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	194,278	10%	56%
Sold to Other Financial Institutions	28,436	1%	8%
Retained	1,693,078	83%	N/A
>\$1 Billion			
Total Originations	\$ 4,652,140	100%	
Sold to Fannie Mae	57,939	1%	7%
Sold to Freddie Mac	95,092	2%	11%
Sold to Ginnie Mae	-	0%	0%
Sold to Conduits and Wholesalers	541,493	12%	61%
Sold to Other Financial Institutions	192,467	4%	22%
Retained	3,765,149	81%	N/A

Note 1: Sums of the percentages may not equal 100 percent, due to rounding.

Note 2: Sales data are limited to sales of new production during the current year, and exclude loans sold out of portfolio.

**Sales with Servicing Retained vs.
Sales with Servicing Released by Secondary Market Purchaser**

(Table 5)

Secondary Market Participant	Percent Retained	Percent Released
Fannie Mae	100%	0%
Freddie Mac	84%	16%
Conduits and Wholesalers	10%	90%
Other Financial Institutions	38%	62%

Note: This chart reflects dollar volume of loans.