NAHB
NATIONAL ASSOCIATION OF HOME BUILDERS

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May 14, 2001

Manager, Dissemination Branch
Information Management and Services Division
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

Attention Docket No. 2001-14

Dear Sir or Madam:

On behalf of the 203,000 member firms of the National Association of Home Builders (NAHB), I appreciate the opportunity to respond to your request for comments on the Office of Thrift Supervision's (OTS) proposal to revise its risk-based capital regulations. NAHB agrees that the current capital rules do not adequately recognize the relatively low risk associated with residential loans and supports efforts that would more accurately reflect the favorable performance of these assets. NAHB also supports changes that would conform the OTS rules more closely to the other banking agencies' requirements.

<u>One-to-Four Family Residential Mortgage Loans</u>

NAHB agrees that the OTS should revise the criteria for placing one-to-four family residential mortgage loans in the 50 percent risk weight bracket. However, rather than raise the loan-to-value (LTV) threshold from 80 percent to 90 percent, NAHB believes the OTS should adopt the approach of the other banking agencies, which does not include a specific LTV requirement. OTS research demonstrates that one-to-four family residential loans carry less risk than other loan types, relative to their respective risk weights. Furthermore, the Interagency Guidelines for Real Estate Lending (Interagency Lending Guidelines), which state that an institution should require appropriate credit enhancements for one-to-four family residential mortgage loans with an LTV that equals or exceeds 90 percent at origination, have resulted in loan performance that is consistent with the results of the OTS study.

We recommend that the OTS join the other banking agencies in allowing a one-to-four family residential first mortgage loan to receive a 50 percent risk weight if the loan is not more than 90 days delinquent and is prudently underwritten within the provisions of the Interagency Lending Guidelines. In doing so, NAHB believes that the OTS should permit forms of credit enhancement in addition to mortgage insurance (i.e. cash or bond collateral, third-party guarantees) to be used in determining whether a loan meets the Interagency Lending Guidelines and, therefore, is eligible for the 50 percent risk-weight bracket.

<u>Land Loans and Nonresidential Construction Loans</u>

NAHB supports the proposal to eliminate the requirement that savings associations 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. We agree with the OTS's conclusion that the 100 percent risk weight sufficiently reflects the risks of these loans and that the additional direct deduction from capital is unnecessary. NAHB also agrees that the current capital treatment of nonresidential construction and land loans is overly burdensome when compared to the capital treatment of other types of loans of equal or greater risk.

<u>Interest Rate Risk Component</u>

NAHB also supports the proposal to eliminate the interest rate risk component of the OTS's capital requirements. We agree that an explicit capital deduction under § 567.7 is not necessary in light of the other tools that are currently available to measure and control interest rate risk and that the individual minimum capital requirements under § 567.3 satisfy the FDICIA requirement that its risk-based standards take adequate account of interest rate risk. NAHB believes it is preferable for the OTS to impose an individual minimum capital requirement for institutions that exhibit a high degree of exposure to interest-rate risk.

Thank you again for the opportunity to comment. We are available to answer any questions you may have concerning our statement or provide any additional information that may be needed.

Best regards,

Bruce C. Smith

Bruce C. Smith
2001 President

BCS/alb