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Household

VIA FACSIMILE 202-906-7755

May 14, 2001

Manager, Dissemination Branch
Information Management and Services Division
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552
Attn: *Docket # 2001-14*

Re: Capital – Qualifying Mortgage Loan, Interest Rate Risk Component, and
Miscellaneous Changes (the “Proposed Rule”)

Ladies and Gentlemen:

Thank you for the opportunity to comment on the Proposed Rule published by the Office of Thrift Supervision (“OTS”). Household Bank, f.s.b. (“Household Bank”), respectfully provides comments to the Proposed Rule. At March 31, 2001, Household Bank owned consolidated assets totaling \$11.5 billion, of which approximately \$4.2 billion consisted of consumer mortgage loans. We support the OTS’ continuing efforts to streamline its regulations with those of the other banking agencies and in particular, the proposal to redefine a “qualifying” mortgage loan eligible for 50% risk-weighting to include mortgage loans that have under a 90% loan-to-value (“LTV”) ratio.

Below are our comments responsive to the OTS’ specific questions on this section of the Proposed Rule.

Is the revised LTV standard appropriate?

We generally support the change, but suggest that the OTS make the language of the final rule consistent with the regulations that apply to banks. Specifically, those regulations do not contain a specific LTV standard, referring instead to the interagency real estate lending guidelines, which effectively require qualifying mortgage loans to have either private mortgage insurance or an LTV under 90%. We suggest the OTS follow this model, allowing changes to be made on an interagency basis and avoiding any potential competitive disadvantage resulting from inconsistent requirements.

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Under the Proposed Rule, a mortgage loan with an LTV that is precisely 90 percent would not be a qualifying mortgage loan. Is this treatment appropriate?

We believe that this treatment is appropriate, as it is consistent with the interagency real estate lending guidelines applicable to all institutions.

Should the OTS delete the explicit LTV standard from the definition?

Yes. While the OTS supports the requirement by stating that "thrifts have a greater concentration in home mortgage lending," it appears unnecessary. Rather than provide additional clarity as suggested by the Proposed Rule, it may result in a competitive disadvantage to thrifts or a general lack of clarity should the interagency guidelines change.

Should OTS also permit other forms of credit enhancement (i.e., cash collateral or bond collateral) in determining whether a loan meets the LTV requirement under the capital rules?

Yes. While the current capital rule does allow a mortgage to satisfy the LTV requirement for a "qualifying mortgage" if insured by an entity approved by Fannie Mae or Freddie Mac, this exception is unnecessarily limited. Other types of credit enhancement such as collateral, stand-by letters of credit, or recourse arrangements may provide equivalent support to a savings association and thus should also be permissible. The final rule could be drafted broadly so as to allow the OTS to review such credit enhancements on a case-by-case basis.

Specifically, should OTS allow other types of guarantees issued by third parties, such as irrevocable standby letters of credit? If so, please address how OTS may ensure the quality of these guarantees, particularly where the guarantor may be an affiliate of the institution.

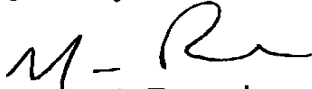
Yes. The OTS could ensure the quality of these guarantees by requiring the thrift in question to maintain documentation of the financial strength of the guarantor, for example, evidence of the guarantor's current debt ratings. Whether or not the company is an affiliate should not affect the analysis, except to the extent that such agreements must be made on an arms' length basis or to the extent that the thrift is the major asset of the affiliate. For example, where an affiliate does not hold an ownership interest in the thrift and has an investment-grade bond rating from at least one major rating agency, a guarantee from that affiliate should be acceptable to the OTS.

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We appreciate this opportunity to comment on the Proposed Rule. If you should have any questions or comments on this letter, please feel free to contact me at the telephone number listed below.

Sincerely,



Martha A. Pampel
Associate General Counsel
Federal Regulatory Coordination
847-564-7941

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