(12)

June 7, 2001

William T. Mattice
President

First South Bank

3233 Thomasville Road
Tallahassee, Florida 32312
(850) 385-3300
Fax (850) 386-5241

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

ATTN: Docket No. 2001-14

Ladies and Gentlemen:

Please let this letter respond to the position presented by the Mortgage Insurance Companies of America (MICA) in regard to proposed changes to the capital treatment of high loan to value (LTV) mortgages.

MICA's position is the Office of Thrift Supervision (OTS) should not increase the LTV threshold for prudently underwritten mortgages. It is no surprise MICA would take this position since it is the trade association for the nation's mortgage insurers and as such, their arguments are certainly self-serving and self-promoting.

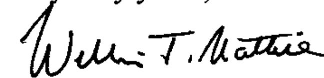
MICA urges caution "because savings associations tend to have far higher concentrations of mortgage loans than commercial banks." This is neither a revelation nor do I think it is a negative. I submit to you in the overall spectrum of bank lending, residential mortgage loans are among the safest a financial institution can extend. OTS's review of charge-off and delinquency rates for various categories of loans documents that "one to four family residential loans carry substantially less risk than other loan types, relative to their respective capital risk weights." This research is clearly confirmed by examining the enormous profitability of the nation's mortgage insurance companies. Their stellar returns are possible because of their low loss experience on insuring what MICA calls "high risk" mortgages.

MICA further states changes in the capital required to back high risk, high LTV mortgages would have a disproportionate impact on thrift institutions. This is no surprise since only OTS rules specifically require that a one to four family residential loan must have a loan to value ratio of 80% or less at origination in order to qualify for the 50% risk weight. Rather than use the term "disproportionately high," it would be more accurate to state that only thrift institutions would be affected by this change since the other federal regulatory agencies have already adopted a 90% standard.

It is ironic MICA calls a 90% LTV mortgage a high risk investment. This label comes from an industry that is engaged in insuring mortgage loans up to 95%, 97% and even 103%. If MICA is attempting to portray a 90% LTV loan as high risk, what do they call a 103% LTV loan?

Furthermore, MICA's attempt to cloud this issue by citing congressional intent regarding Freddie Mac and Fannie Mae loan to value thresholds is subject to question as to why such transference of regulations for government sponsored enterprises have anything to do with the regulations of thrift institutions. This proposed change would make the capital rules more consistent with inter-agency supervisory guidance on high LTV loans. Furthermore, from a more practical point of view, it would cease to penalize the thrift institutions of this country that are engaged in the industry's historic mission of providing housing finance to the communities they serve. The profitability of residential lending has been compromised over the years and to put overly burdensome capital requirements on this type of lending serves to dissuade thrift institutions away from this type of lending into riskier types of loans and investments. This is a welcome and overdue change and I would hope the one negative comment letter written by a biased third party would not cause a delay in the implementation of this needed and overdue revision of the regulations.

Very truly yours,



William T. Mattice

WTM/kt