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Guaranty
BANK

May 8, 2001

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

Re: Docket No. 2001-14 - Capital: Qualifying Mortgage Loan, Interest Rate Risk Component, and Miscellaneous Changes

Ladies and Gentlemen:

This letter is submitted on behalf of Guaranty Bank, a federal savings bank and a wholly owned subsidiary of Temple Inland, Inc. We appreciate the opportunity to comment on the proposed rule, Docket No. 2001-14, relating to changes to the agency's capital regulations. We strongly support this step by OTS to eliminate unnecessary capital burdens and to align OTS capital regulations more closely to those of the other banking regulators. Specific comments on the proposal are presented below.

ONE-TO FOUR-FAMILY RESIDENTIAL MORTGAGE LOAN

<u>LTV Standard</u>

Guaranty is in favor of deleting the explicit LTV standard from the definition. As stated in the Proposal, the changes are for the purpose of eliminating unnecessary capital burdens and <u>to align OTS capital regulations more closely to those of the other banking regulators</u>. Other agencies do not require an LTV standard when risk-weighting one-to four-family permanent residential mortgages. We believe that processes are already in place to monitor credit risk in residential lending. Thrifts as well as other financial institutions are required to follow rigorous guidelines in originating, documenting, monitoring, and reporting residential loans. LTV limits are a part of these guidelines, and the Board must review any exceptions to the limits at least quarterly.

If OTS feels it is necessary to impose LTV limits, then Guaranty strongly favors changing the LTV limits of Qualifying Loans from:

- <u>less</u> than 90 percent to
- <u>equal</u> to 90 percent or less.

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There is a considerable amount of mortgage production with an LTV equaling 90 percent. Under the current proposal, these loans would need to be risk-weighted at 100 percent at origination, but risk weighting could be reduced to 50 percent as soon as one principal payment was received (since the LTV would then fall below 90 percent). Modifying the LTV threshold to equal to 90 percent would reduce record keeping requirements without alleviating the intended impact of having a threshold.

We assume that "Qualifying Mortgage Loan" under this proposal includes:

- the aggregate of all mortgages and consumer loans secured by liens on the same one-to four-family residential property, with no intervening liens;
- loans to individuals to fund the construction of their own home;
- loans on interests in cooperative buildings; and
- mortgage loans on mixed-use properties that are primarily single-family residential properties.

Additional Credit Enhancements

We also agree that if LTV limits are imposed other types of credit enhancements should be included as collateral for the purpose of determining LTV. This is supported by the Interagency Guidelines for Real Estate Lending, which states that the appropriate credit enhancement for mortgage loans can be in the form of mortgage insurance, readily marketable collateral, or other acceptable collateral. Readily marketable collateral is defined as insured deposits, financial instruments, and bullion in which the lender has a perfected interest. Acceptable collateral is defined as collateral in which the lender has a perfected security interest, has a quantifiable value, and is accepted by the lender in accordance with safe and sound lending practices. The Guidance specifically states that acceptable collateral could include unconditional irrevocable standby letters of credit issued for the benefit of the lender.

Collateral Deterioration, Negative Amortization

As stated above, we do not believe that an LTV standard for capital is necessary. As a result, we do not believe that issues on collateral deterioration and negative amortization should be addressed through an LTV capital limitation. These issues are and should be addressed through additions to loan loss reserves.

LAND LOANS AND NON-RESIDENTIAL CONSTRUCTION LOANS

We strongly support the OTS position that 100 percent risk weighting of land and non-residential construction loans sufficiently reflects the risks of these loans and that the additional direct deduction from capital is unnecessary.

HIGH QUALITY, STRIPPED, MORTGAGE-RELATED SECURITIES

We agree that the elimination of the IRR component warrants inclusion of high quality, stripped, mortgage-related securities in 100 percent risk-weighted assets.

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Again, we appreciate this opportunity to provide comment on this important proposal, and we commend OTS on its work to more closely align the Agency's capital regulations with those of other banking regulators. If you have any questions, please call me at (512) 434-4140.

Respectfully,

Troy L. Hester
Controller