June 28, 2004

Washington Mutual

3

Information Collection Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW.
Washington, DC 20552
Attention: 1550-0023

RE: Notice of Proposed Instructional Revisions for Reporting of GNMA Buy-Back Option; OMB Number: 1550-0023 -- 69 Fed. Reg. 23502

Ladies and Gentlemen:

Washington Mutual[1] appreciates the opportunity to comment on revisions to the instructions for the Thrift Financial Report ("TFR") and the Call Report being proposed by the Office of Thrift Supervision and the other banking agencies in the above referenced matter. Washington Mutual issues Government National Mortgage Association ("GNMA") securities and has the option to repurchase individual Federal Housing Association ("FHA") and Veterans Administration ("VA") loans backing the securities when the loans meet certain delinquency criteria. Our comments will focus on the proposed revisions that affect the reporting of delinquent loans (included in the balance sheet) backing a GNMA security ("GNMA loans") on TFR Schedule PD and Call Report Schedule RC-N [2] (collectively referred to as the "past due schedules") and on the reporting of foreclosed GNMA loans on TFR Schedule SC and Call Report Schedule RC[3] ("balance sheet"). Washington Mutual is concerned that the revisions as proposed misrepresent the risks of these assets and thus would be misleading to readers of the TFR and Call Report.

Washington Mutual Position

Washington Mutual believes TFR and Call Report information should be reported in a manner that meets the needs of analysts and others in helping to assess the safety and soundness of financial institutions. Consistent with this view, Washington Mutual believes GNMA loans that are insured or guaranteed by the U.S. Government and hence have a different risk profile should not, when reported, be aggregated with defaulted loans and foreclosed real estate that do not offer such protection. We believe the

[1] Washington Mutual's subsidiaries include two federal savings associations and a state-chartered savings bank. With a history dating back to 1889, Washington Mutual is a retailer of financial services that provides a diversified line of products and services to consumers and commercial clients. At March 31, 2004, Washington Mutual and its subsidiaries had assets of $280.77 billion. Washington Mutual currently operates more than 2,400 consumer banking, mortgage lending, commercial banking and financial services offices throughout the nation.

[2] Schedule PD is entitled "Consolidated Past Due and Nonaccrual" and Schedule RC-N is entitled "Past Due and Nonaccrual Loans, Leases, and Other Assets"

[3] Schedule SC and Schedule RC are entitled "Consolidated Statement of Condition"

LH0980

1201 3rd Ave.
Seattle, WA 98101

proposed combined presentation of the assets would obscure the significant disparity of the risk profiles to the detriment of TFR and Call Report end users.

We recommend that the agencies require all institutions to *exclude* GNMA loans that are insured or guaranteed by the U.S. Government from the aggregation of total loan delinquency balances and to report such loans *only* in a memoranda item. We also recommend that the agencies revise the past due schedules to require separate reporting of past due "loans and leases held for sale" and past due "loans and leases held for investment." Finally, we recommend that foreclosed GNMA loans be reported within "Other Assets" on the balance sheet and not as "real estate owned" (REO) as is currently proposed.

As explained in detail below, we believe our recommended presentations will provide readers with information that is relevant to their needs and therefore provide a more realistic industry risk profile. The exclusion of GNMA loans from "past due" balances and "real estate owned" would help ensure that asset quality ratios and other analytical measures more accurately indicate institutions' potential exposure to losses. We also believe the separation of past due "loans and leases held for sale" and past due "loans and leases held for investment", since they are accounted for differently, would provide a clearer presentation of these assets.

1. Proposed Presentation of GNMA Loans on the Past Due Schedules

Reporting GNMA loans as "past due" with other defaulted loans in the past due schedules may result in misunderstandings among analysts and others who are not aware that the past due schedules include defaulted loans whose unpaid principal balances are insured or guaranteed by the U.S. Government. This is also true when end users rely on asset quality ratios and other safety and soundness indicators that are published in "canned" regulatory reporting database reports such as the Uniform Thrift Performance Report, which do not differentiate between the significant risk profile differences that exist between loans that are insured or guaranteed by the U.S. Government and those that are not subject to such credit protection.

We call the agencies' attention also to the guidance in FASB Statement of Financial Accounting Concepts No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*:

> "Classification in financial statements facilitates analysis by grouping items with essentially similar characteristics and separating items with essentially different characteristics. Analysis aimed at objectives such as predicting amounts, timing, and uncertainty of future cash flows requires financial information segregated into reasonably homogeneous groups. For example, components of financial statements that consist of items that have similar characteristics in one or more respects, such as continuity or recurrence, stability, **risk**, and reliability, are likely to have more

predictive value than if their characteristics are dissimilar." [par. 20 (bolding added)]

We believe this guidance supports our view that similar items with substantially dissimilar risks should not be reported on an aggregate basis in regulatory reports – particularly if understanding the risk profiles of the items is integral to the needs of the reader. Based on our low level of GNMA loan loss experience, we believe the risk profile of GNMA loans renders them sufficiently different from other loans to justify *excluding* them from the past due schedules for regulatory reporting purposes. We would recommend that GNMA loans which are insured or guaranteed by the U.S. Government be reported *only* in a memoranda line.

2. Proposed Presentation of Past Due Loans Held for Sale and Past Due Loans Held for Investment

We believe past due loans held for sale and past due loans held for investment which must be accounted for at "lower of cost or market value" (LOCOM) or "amortized cost," respectively, should be presented separately in the past due schedules. We believe their separate presentation is appropriate given that their reported balances are based on different measurement approaches.

Among other purposes, analysts use delinquency statistics to gain insight into the adequacy of the allowance for loan and lease losses and the effect that material changes in delinquency statistics may have on the provision for loan and lease losses. With loans held for sale recorded at LOCOM, changes in delinquency statistics for such loans have no impact on either the allowance or the provision for loan and lease losses. Credit quality deterioration that results in a LOCOM adjustment would be recorded as a charge to earnings in the period in which credit deterioration occurs and be accounted for as a writedown in the carrying value of loans held for sale. To help increase the transparency of the past due schedules and therefore provide analysts and other readers with information that is most relevant and helpful in meeting their informational needs and assessment of risk, we therefore recommend segregating the entire past due schedules into two parts with delinquency statistics for "loans held for sale" being reported separately from "loans held for investment".

3. Proposed Presentation of Foreclosed GNMA Loans

The agencies argue that because institutions often hold foreclosed real estate, for conveyance to HUD or the VA, for extended periods of time, the presentation of such properties as "real estate owned" is appropriate. We believe the amount of time a property is held is less relevant to an accurate portrayal of the safety and soundness of an institution than the risk of loss associated with the asset. Washington Mutual does not hold title to GNMA loan collateral at any point between foreclosure of the loan and conveyance of the property to HUD or the VA. GNMA takes possession of the collateral and we establish a claim to recoup our qualified costs during the foreclosure process. The conveyance policies of HUD and the VA are based on the fact that we are better positioned to manage foreclosures than the U.S. Government. In this respect, our continued management of foreclosed properties following foreclosure is a matter of practical expedience for HUD and the VA. As Washington Mutual is entitled to reimbursement for qualified costs associated with the activities that are required to be performed prior to conveyance to HUD or VA, we believe this claim has the essential characteristics of an account receivable and should be reported, as such, as a separate component within "Other Assets".

In addition, we believe that the current proposal, by combining income-producing foreclosed FHA loans with non income-producing REO, would result in analysts drawing incorrect conclusions regarding our nonperforming assets. Further, the risk that REO may decline in value (unlike GNMA loans which are insured or guaranteed by the U.S. Government) further emphasizes the need to report distinctly different assets separately.

Conclusion

We recommend that the agencies require GNMA loans be excluded from the bodies of the past due schedules and should only be reported in a memoranda line. We also recommend that the agencies amend the past due schedules to require separate reporting of past due "loans held for sale" and past due "loans held for investment". Finally, we recommend that the foreclosed real estate associated with GNMA loans be reported as an account receivable within "Other Assets" on the balance sheet.

We believe our recommendations will aid in the monitoring of a more realistic risk profile of individual institutions and the industry as a whole while achieving the agencies' primary objective of consistency in reporting. We encourage the agencies to implement our recommendations.

Thank you for the opportunity to share our comments with you. If you have comments or questions about our position, or if you would be interested in receiving an analysis of our loss experience associated with GNMA loans, please contact me at 206/451-4622.

Very truly yours,

Tony Goulart, III

Tony Goulart, III
First Vice President & Manager, Financial Reporting