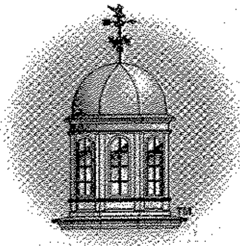

FIRST CAPITAL BANK
909 South Main Street
Post Office Box 529
Laurinburg, North Carolina 28353
Telephone (910) 610-4343
Fax (910) 610-1227

January 14, 2008

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, DC 20552

Re: Call Report/TFR

Dear Sirs:

I am responding to the proposal to have the OTS regulated institutions change from the TFR Report to the Call Report. These are several reasons I think it would be beneficial to the OTS regulated Banks to switch to the Call Report, they are as follows:

1. Thrifts are often left out of banking studies and publicatons that rate financial institutions since the TFR differs from the Call Report.
2. Our data processor has a module designed to provide almost all the information needed to prepare a Call Report. No such module with the TFR exist now.
3. A TFR often precludes its general use in numeric valuation of performance. Thrifts are often under valued as compared to commercial banks.
4. Most newly hired bank accounting staff have no experience with TFRs.

My CFO and I are very supportive of this change and hope the OTS will move forward with this change.

Sincerely,

Charles O. Rivers
President/CEO

WSJ 11/10/08

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CAPITAL

How to Unbreak the Banks

THE BUSINESS MODEL for big U.S. banks is broken. Let us count the ways.

One: Bankers no longer scrutinize a would-be borrower to decide whether he is good for the money. Instead they "originate and distribute" loans.

Outfits that initiate loans sell them to others, often taking a fee but passing along the risk of default to the buyer. Banks sometimes originate loans; sometimes they serve as middlemen between originator and investor.

By David Wessel

When a business gets a fee for making a loan, or for turning a loan into a security, it makes lots of loans and doesn't worry much about whether borrowers are likely to pay the money back. It's now clear that this isn't a smart way to run an economy. Duh!

Solution: Change the incentives. An outfit that makes a loan should have to bear some piece of the risk that the borrower won't repay it. The same goes for everyone along the chain as mortgages are packaged into securities, and those securities are turned into still more securities.

The amount of loan risk a lender retains shouldn't be a secret. It should be transparent, and banks should have to set aside enough capital to absorb the blow if their loans go sour. No more "structured investment vehicles" that hold zero capital and fund their long-term lending by borrowing short-term funds. No more banks pretending they aren't backstopping these entities and thus don't have to maintain a capital cushion against that lending—and then taking the failed loans onto their books anyway.

Asking loan originators to hold a piece of the risk may sound impractical. It isn't. When credit-card loans are turned into securities, the company that sponsors them is on the hook if consumers don't make payments. Do the same for mortgages.

TWO. New and improved rules for global governments to monitor banks—known as Basel II, for the Swiss city where such things are negotiated—rely heavily on banks' ability to build computer models to monitor the risks they are taking. Those models have lost credibility.

Indeed, the capacity to manage massive financial institutions—which have grown beyond conventional banking into underwriting securities, trading with huge sums for their own accounts and even running in-house hedge funds—is in doubt. To the longstanding worry that they are "too big too fail," add the possibility that they are "too big to manage." Think **Citigroup**, **Merrill Lynch**, **UBS** and **Bear Stearns**.

"I've long felt that we should have learned that many of these large integrated financial institutions do not have the management capability to effectively oversee and understand the risk-taking involved," says Henry Kaufman, the former Solomon Brothers executive who is one of Wall Street's wise men. "Senior management has been unable to understand the risk-taking or become captive of middle managers, who get paid by trading profits."

Solution: If the stock market challenges the wisdom of big integrated financial houses, let markets force them to dismantle. But chief executives and boards of directors must empower risk managers (as surely they are doing already) and must listen to them even when times are good. Junking Basel II is a mistake. It's better than Basel I, which helped create today's mess (as described in a previous Capital column). But it's not good enough. On to Basel III.

Patrick Conlon/WSJ

THREE: Ratings companies, principally Moody's and Standard & Poor's, made this mess possible by stamping the triple-A label on securities that turned out to be anything but supersafe. The fault is partly with them: The companies weren't as smart as they should have been and didn't adequately communicate what ratings meant.

But the fault also lies with government, which enshrined the rating firms' role in law and limited competition among them. Also sharing the blame are investment houses and investors—both financial engineers who created instruments so complex that even sophisticated investors couldn't understand them and those supposedly sophisticated investors who relied on rating outfits' ability to calibrate those unfathomable risks.

Solution: The market is responding already with what's been dubbed "a flight to simplicity." That's a reaction to the excessive complexity of the recent past which turned out, in some cases, not to be spreading risk but distilling and concentrating it in institutions that didn't realize what was happening. (Thanks to Drexel University's Joseph Mason for that last point.) If originating institutions and rating companies don't bolster confidence in pricing complex securities, markets will retreat to simpler ones.

As with accounting firms following the corporate scandals of the 1990s, rating companies must change to recover credibility. Two obvious places to start: Banks shouldn't rely on the rating firms to both give advice about how to structure securities and then assign a widely used rating. Split the functions apart.

And find a better way to pay the firms. When John Moody founded the company that still bears his name, the *investor*, not the *issuer*, paid the fee. That changed in the 1970s. Now borrowers and issuers pay the fees, and that gives rating firms an incentive to rate more, rather than rate better. One option is to regulate the firms more strictly; another is to find some clever way to link their compensation to defaults on securities they rate.

Banks and Wall Street could devise a better business model. But they'd best hurry. If they don't act, regulators will. And if regulators don't, House Financial Services Committee Chairman Barney Frank and the other Democrats in Congress will.

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ONLINE TODAY: David Wessel talks about the ways in which the business model for U.S. banks is broken, at **WSJ.com/Video**.

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Countrywide Reports Another Rise in Overdue Loans