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INFORMATION SERVICES
DIVISION

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Manager, Dissemination Branch
Information Management and Services Division
Office of Thrift Supervision
1700 "G" Street, N.W.
Washington, DC 20552

Attention: Docket No. 2000-91

Ladies and Gentlemen:

On behalf of the board of directors of Harrington West Financial Group, Inc., the holding company for Los Padres Bank, this letter is submitted to provide comments on the proposed regulation 12 C.F.R., Part 584, Docket 2000-91 on required notification by thrift holding companies of significant transactions that increase debt and reduce consolidated capital or pertain to selected asset acquisitions and other transactions.

Loss of Charter Benefit

We support regulations that fairly promote the safety and soundness of the industry, protect the deposit insurance fund, and reduce material risks in the industry. However, the proposed rule to further regulate holding company activities, and in particular consolidated capital, severely limits and dilutes the benefits of the thrift charter and holding company form of ownership without justification that the current method of regulation has caused any significant safety and soundness issues or risks to the insurance fund. Thrift holding companies have used debt prudently and effectively to capitalize their thrift subsidiaries.

One of the benefits of the thrift charter has been the favorable regulation of holding company debt levels versus the banking industry, and Office of Thrift Supervision's (OTS) concentration and reliance on the level of bank capital and not consolidated holding company capital. With further burdens placed on thrift holding companies to track and report transactions and debt expansion, and the OTS's arbitrary rejection or approval of these notices without appropriate and well-defined standards, holding companies will be held hostage to inconsistent regulations and standards. Furthermore, the regulation of capital levels and debt levels of thrift holding companies will substantially eliminate one of the few remaining benefits of the thrift charter and promote more charter changes to bank related entities. This action will likely further reduce the number of thrifts regulated by the OTS and substantially increase the cost to the remaining thrifts for regulation by the OTS unless there is a commensurate reduction in OTS staff and management.

Arbitrary Criteria for Notice and Approval

The bases for the proposed requirement to file notices appear arbitrary and ill-defined. For example, what basis does the OTS have for determining a "significant" transaction? That is, what empirical evidence exists to show that an institution poses a significantly higher level of

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risk when both its debt level increases 5% (during a rolling twelve month period) and it exceeds 50% of consolidated capital or it purchases assets over a twelve month period that represent 15% of consolidated holding company assets? Either event would trigger the notice requirement. We believe the reasons and justification for these requirements should be more fully researched and disclosed for comment before the proposed rule is enacted.

Also, the factors on which the review and approval of the notice are based are highly subjective and arbitrary, which can result in inconsistent decision-making on the merits of a significant transaction. Proposed section 584.140, which prescribes the basis for disapproval of a notice, is only one sentence long and the shortest provision in the proposed regulation. If the OTS proceeds with the proposed regulation, it should better define and quantify the guidelines or criteria for rejecting a notice. That is, what is an acceptable effect of the transaction on cash flow, liquidity, earnings, and capital? What risk level is acceptable and how is it defined? Only when these criteria are accurately defined can the rule be fully understood by holding companies and consistently applied by the OTS.

Misinterpretation of Notice Requirement

The requirements for OTS notification in the proposed regulation could result in significant misinterpretation. A better definition of those criteria should be made. For example, let's assume a thrift holding company already has a ten-year revolving line of credit of $100 million approved prior to the proposed rule's implementation. Only $75 million of that line of credit is being utilized, and consolidated holding company capital is $180 million. It is unclear whether by virtue of having this line of credit currently in place it would be grandfathered under the proposed regulation, as the total line exceeds 50% of capital, but the amount drawn is only 41.6% of capital. If the line is drawn to a level that exceeds $90 million (50% of capital), is a notice required indicating that the full line of $100 million was already existing? Clarification of the treatment of existing transactions and lines of credit should be made to ensure fairness and consistency in notification.

In summary, we believe the proposed regulation is not sufficiently defined, will allow inconsistent review and approval standards, will unnecessarily increase administrative burdens to thrift and holding company boards and management, weakens the thrift holding company form of ownership, and will further erode the number of thrifts in the industry due to loss of thrift advantages, thus increasing the cost of regulation to the remaining industry. These detriments to the thrift industry would result without justifying the need for the new regulations or evidence that the current regulations do not adequately address risks. Given the proceeding, implementation of the proposed regulation should be abandoned. If the OTS proceeds with the proposed regulation, the criteria for notice should be better defined with respect to debt instruments already in place prior to adoption and the nature of the criteria for approving significant transactions should be made less arbitrary and subjective.

Sincerely,

Harrington West Financial Group, Inc.
Board of Directors

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