

**WORLD SAVINGS™**

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December 26, 2000

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

Attn: Docket No: 2000-70

World Savings Bank, FSB, Oakland, California ("World") appreciates the opportunity to comment on the agencies' proposal to strengthen the capital treatment of retained residual interests from securitizations and other transfers of financial assets. World strongly supports the agencies' efforts to better align regulatory capital requirements with the risk exposure of residual interests.

Capital Proposal

The proposed rule would require that risk-based capital be held in an amount equal to the amount of the residual interest that is retained on the balance sheet in a securitization or other transfer of financial assets, even if the capital charge exceeds the full risk-based capital charge typically held against the transferred assets. While a capital charge in excess of the requirement on the securitized/transferred assets may be appropriate, particularly for sub-prime loans, we believe it requires a specific analysis by Agency examiners to make that determination. Therefore, we recommend that the initial risk based capital requirement not exceed the amount required on the securitized/transferred assets. However, the rule should provide that the capital required can be increased up to the full amount of the retained residual interest if an examination at a later date determines higher capital is justified. Given the risk of activities involving retained residual interests, it's important that the issuers be examined and that each transaction be analyzed carefully for risk to determine the appropriate capital level. It is equally important to make it clear to the issuer that their securitizations will be examined to determine if there is a need for more capital than the initial requirement. This approach makes sense particularly for securitizations/transfers of prime loans. However, the Agencies might wish to provide higher initial capital on retained residual interests of sub-prime loan securitizations/transfers, particularly when the transaction results in high "gain on sale" income.

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Securitized Loans Retained by the Issuer

Institutions frequently securitize loans and hold the securities for use as collateral for borrowing funds in the capital markets. In this case, existing recourse regulations clearly require the institution to maintain the same risk-based capital on the securities as would be required on the underlying loans. The rule should make it clear that securitizations that are 100% retained by the issuer are not "residual interests" and do not fall under this proposed rule.

Role of Examinations

Despite the best efforts to develop comprehensive requirements for capital today, financial managers will continue to create structures which utilize loopholes in the regulations to minimize capital. Consequently, examinations will always be a critical part of the process of determining the appropriate level of capital for individual transactions and institutions. Regardless of the decision regarding the general rule for capital of residual interests, we believe examiners should be able to require higher levels of capital for individual transactions if deemed necessary during the examination process. There is an added benefit to this. If institutions know that examiners' scrutiny of the transactions will be the norm and the necessary amounts of capital will be required based on the examination findings, managements will be less likely to enter into transactions which manipulate the capital regulations to under capitalize various assets.

Off Balance Sheet Risks

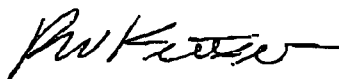
The Agencies' proposal specifically refers to residual interests retained on the balance sheet. This leaves off balance sheet retained interests uncovered, which seems counter to the obvious intent of the proposed rule. For example, when a residual interest is transferred off balance sheet but the institution is still obligated to bear the credit expense, the proposed capital rule should still apply. Another example would be an off balance sheet credit enhancement structure that requires an institution to cover credit losses by giving up contracted income instead of paying out of pocket. For example, in one version of the Federal Home Loan Banks' mortgage purchase program (MPF 125 plus), the selling institution indirectly retains the "first loss" credit position because it must give up contracted income from the purchasing FHLB to cover the first losses. However, no capital is currently required for this loss position because this credit enhancement is off balance sheet and is accounted for as a reduction in fee income instead of an out of pocket expense. The avoidance of capital requirements through this structure is not in the spirit of the risk-based capital regulations. If off balance sheet residual interests and income reduction methods of payment for losses are considered recourse or direct credit substitutes and therefore fall under the recourse rules, then it would be wise to clarify that in the final ruling.

Retroactive Application

The proposal to apply the new requirements to existing as well as future transactions is appropriate given the objective of the agencies to require appropriate levels of risk-based capital. As the proposal points out, banking organizations may need additional time to adapt to the new capital treatment and a transition period to apply the new rules to existing transactions. We believe three to six months is sufficient.

In conclusion, World supports the agencies in their efforts to strengthen and clarify the risk-based capital standards for retained residual interests. World also continues to support the March 2000 proposal to equalize the capital treatment of recourse and direct credit substitutes, and urges the agencies to implement both rules as soon as possible.

Very truly yours,



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