6

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Alden Stout, SVP
Risk Management

September 9, 2002

VIA ELECTRONIC MAIL

Communications Division
Office of the Comptroller of the Currency
250 E Street, SW.
Public Information Room
Mailstop 1-5
Attention: 1557-0081
Washington, DC 20219
Regs.comments@occ.treas.gov

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th and C Streets, NW.
Attention: Consolidated Reports of Condition and Income, 7100-0036
Washington, DC 20551
Regs.comments@federalreserve.gov

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
Attention: Comments/Legal Division
Consolidated Reports of Condition and Income, 3064-0052
550 17th Street, NW.
Washington, DC 20429
comments@fdic.gov

Information Collection Comments
Chief Counsel's Office
Office of Thrift Supervision
Attention: TFR Revisions, OMB No. 1550-0023
1700 G Street, NW.
Washington, DC 20552
Infocollection.comments@ots.treas.gov

Joseph F. Lackey, Jr.
Office of Information and Regulatory Affairs
Office of Management and Budget
Attention: OMB Nos. 1557-0081, 7100-0036, 3064-0052, and 1550-0023
New Executive Office Building
Room 10235
Washington, DC 20503
jlackeyj@omb.eop.gov

Ladies and Gentlemen:

KeyCorp is submitting this letter in response to the joint notice and request for comments published in the Federal Register on July 12, 2002, by the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (collectively, the "Agencies") regarding the proposed information collection activities by the Agencies with respect to subprime lending programs (the "Proposal").

KeyCorp is an integrated multi-line financial services company with consolidated total assets of nearly $83 billion as of June 30, 2002. Among its subsidiaries are KeyBank National Association ("KeyBank") and Key Bank USA National Association ("KeyBank USA"), both of which are FDIC-insured depository institutions. Together, KeyBank and KeyBank USA have aggregate consolidated total assets of more than $81 billion, of which approximately $26 billion is held in their consumer loan portfolios.

KeyCorp appreciates the opportunity to comment on the Agencies' Proposal. If there are any questions concerning our comments, please feel free to contact the undersigned by telephone at (973) 319-8755 or by electronic mail at alden_stout@KeyBank.com.

- It is recognized that there is a need for the Agencies to have risk related reporting. Unfortunately, the approach that has been taken by the Agencies will ultimately generate unintended failures. As stated in the body of the proposed rule, "there is no standard industry wide approach to the definitions of *subprime* or *program*". The definition of subprime outlined in the proposed rule reached back to the March 1, 1999 *Expanded Guidance for Subprime Lending Programs.* This definition was highly contested by the banking industry and the Government Sponsored Enterprises particularly in relation to the minimum credit risk score of 660 or below. Based on empirical studies published by Fair, Isaac and Co. 27% of all consumers in America would fall into this classification. This definition places an inordinate level of emphasis on a loan program that in many cases is not outside the ordinary course of business. Reliance on this definition places at risk prudent decisions at the regulatory level, with a high probability of reaching erroneous conclusions regarding concentration risk and capital resilience. This inevitable misinterpretation of the data will cause harm to the financial institution. This definition is clearly an unacceptable designation and ill characterizes the benefits received by consumers that fall into the risk rating described by the Agency. In the event that this definition is used, then loans not meeting the broad requirements will need to be removed for reporting purposes and reclassified as "prime" loans. In essence the entire portfolio must be downloaded into a separate database to sort the loans in accordance with the definition. Therefore, by default, all other loans are deemed "prime" even though the lines between "prime' and "subprime" have not been delineated. The segregation will be arbitrary at best. The Agency has also allowed for the financial institution to define its subprime program and report based on its own definition. Unfortunately, this will only add to the confusion and the inability to monitor the "subprime" activity as desired by the Agencies. The level of inconsistency will only frustrate the goals and objectives generated by this proposed rule and make it impossible for the any governing body or reader of the call report to interpret the data correctly. Because of the divergence in reporting, any comparisons made would be erroneous and conclusions reached unreliable.

- Given the extreme difficulties in complying with the proposed rule, an alternative guideline is proposed to achieve the desired results of the Agencies. It is recommended that Asset Quality criteria be defined and included in the call report rather than what is proposed currently. Stratifying the portfolio in alignment with credit bureau data, lien position, equity, and other credit qualifying criteria would allow for more consistent reporting. By providing more fact-based information with clearly defined attributes, each financial institution could be evaluated on a level basis without discrepancies and inconsistencies. The Agencies would obtain from each institution quantifiable data that relates risk criteria to default and loss. The benefits to the Agencies would be to identify portfolio segments that rank order risk and correlate to clear performance statistics; which is the ultimate goal of the Agencies to gather such data in the call report.

- Key Bank, USA is adamantly opposed to this information being part of the call reporting system. Release of this information will be used inappropriately outside the Agencies. The Call Report is a public document. Attempts to keep this information confidential are admirable but unattainable. Demands for this data will be made and all manner of analytical evaluations will be performed. The data will become the basis of unfair comparisons between financial institutions. Assumptions and interpretations about the financial soundness of the institution and the ethics of the financial institution will be made. The extremely high probability that outside parties will evaluate the data through statistical methodologies to prove predetermined conclusions places all banks in a position to defend the data, determine the fallacy of the assumptions used by the third parties and then represent the facts behind the numbers after the incorrect information has made its way into a publication. This places any bank to be unfairly targeted. The innumerable forums this data will be used, discussed, analyzed, evaluated, scrutinized, and debated is far-reaching and potentially damaging to the reporting financial institution. In the event this proposed rule becomes effective, the confidentiality must be maintained during the life of the institution. Significant discrepancies will exist because each bank will aggregate the data differently and the reader of the report will not have knowledge of the various methodologies employed by the institutions. Reporting numbers without explanation is simply detrimental and unwise and can cause a feeding frenzy to the general public. The possibility of a wave of class action lawsuits is very probable with the call reports being used as the basis of the complaint notwithstanding the inconsistencies, discrepancies, and inaccuracies that will exist in the data.

- The Agency has made assumptions that capturing the required data will take minimal effort and very little cost. It is anticipated that a minimum investment of $200,000 per portfolio is needed to build the reporting platform with a monthly investment of $10,000 per portfolio to maintain the data. In aggregate the total cost is estimated at $400,000 with ongoing maintenance of $20,000 per month. The minimal impact assumption by the agency is erroneous and will cause a significant burden to the reporting institution because of the proposed definition and the underwriting standard utilized by various banks in their assessment of risk related to price. There is not accepted industry definition of "subprime" borrowers, loans, or loan programs. Also, there are no standardized industry underwriting guidelines for "subprime" loans. Each bank has different standards and different weights assigned to the numerous variables to assess credit, capacity, collateral, and character for each borrower. The system utilized by each bank is different and capturing the data and force-feeding it

into an arbitrary definition will create degrees of non-compliance due to system limitations. We appreciate the approach that has been taken to provide information on the "program" and not individual loans. The reality of including this information in the Call Report requires loan level detail, and in fact, becomes a loan level reporting process not a "program". As a result, tracking at the loan level requires extraction of data from the credit reports and third party verifications and re-entering this detailed data into a reporting format just to comply with the ambiguous definition proposed by the Agencies. This extraction process will cause additional programming to interface with the loan origination platform, the credit bureau report data, and manual inputting of the lines of credit for each borrower into a system to evaluate the qualifying level of delinquency and capture the data for reporting purposes. Further evaluation of the loan to determine if it meets the broad proposed definition to determine inclusion in the report is required. The loan level detail must be reconciled to the total to ensure accuracy. This is very burdensome and will be costly to implement.

- The information being requested has far reaching dynamics that extend beyond the contemplated utilization described by the proposed rule. The reality is that this information gathered in this context falls significantly short of the full spectrum econometric view of contribution margin, share holder value, and economic value added benefits to the financial institution. The attempt of this call report revision is designed to only look at one aspect of the lending practices of the financial institution without regard to the financial benefit the consumers receive from this extension of credit. Inclusion of the data as proposed eliminates the benefits to the consumer and will tempt the user to perform statistical analysis and comparative evaluations that will ultimately drive erroneous conclusions.

- The bank failures described as part of the justification for this data to be included in the call reports could be also ascribed to the economic conditions, securitization structures, accounting policies and management oversight. If securitized assets were part of the failed banks balance sheet structure, the accounting policies should be addressed as part of the analysis. The implication of the proposed rule is that the banks failed because of the level of "subprime" loans on the balance sheets yet these other factors were not mentioned. The current wave of accounting policy issues that have surfaced recently in the corporate environment would lead to some discussion of the drivers of the failed banks. It has to be questioned whether the driver is "subprime" or other significant missteps by management, or how sound their accounting polices were applied.

- It is recommended that the Agency delay implementation an additional six months so that this significant issue can be adequately evaluated and alternative reporting requirements be contemplated. Financial institutions are becoming more analytical and can provide more structured fact based information that is meaningful to meet the objectives of the Agency.

Conclusion:

The four serious concerns with the proposed rule are 1) the definition will cause discrepancies and inconsistencies across the board. Therefore, an alternative reporting guideline is proposed that is fact-based with risk criteria defined and segmented. 2) implementation must be delayed at a minimum six months to validate the feasibility of an

alternative reporting methodology. 3) the confidentiality will not be preserved causing tremendous resource and financial burdens on the financial institution, and 4) the time and cost required to implement the proposed rule is excessive and burdensome. The current proposal will not achieve the desired results the Agencies are seeking. In fact, just the opposite will occur if the proposed rule is enacted because the implementation will be ineffective, inconsistent, void of reliable data, induce false conclusions, and cause failure to the intended use of the reporting.

Respectfully,

Alden Stout
Senior Vice President