WESTERN FINANCIAL BANK 23 Pasteur, Irvine, California 92618

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September 10, 2002

Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, D.C. 20552

Attention: Information Collection Comments: TFR Revisions, OMB No. 1550-0023

Dear Sir or Madam:

This letter responds to your request for comments regarding the addition of the "Consumer Loans in Subprime Lending Programs" schedule to the Thrift Financial Report (the "Schedule"). Specifically, we will respond to the five major requests for comments included in the *Federal Register/Vol. 67, No. 134/Friday, July 12, 2002/ Notices.*

(a) Is the collection of the information necessary for the agencies to perform their functions?

No. Since insured-bank failures usually result from fraud or incompetence, it is the agencies' ability to assess bank management, systems, and internal controls that determines whether lending practices increase the risk of loss to the insurance fund. We believe that the agencies have sufficient examination techniques to assess the adequacy of bank management, systems, and internal controls for subprime lending. The Schedule might be useful in identifying banks that began a subprime-lending program in between examinations, but existing reports provide sufficient information to determine whether bank credit quality is deteriorating at those banks know to the agencies to have such programs.

Does the information have practical utility?

Only if the agencies understand the subprime definitions used by each individual bank. Even then, the integrity of management, systems, and internal controls determines the utility of the information. One can always argue that more information is better, but the agencies attain better regulation of credit risk through the examination process, not increased reporting requirements; especially when a subprime loan at one bank would not be a subprime loan at another bank.

In the event that the agencies proceed with the new reporting requirements, we strongly recommend that the Schedule distinguish between secured loans and unsecured loans. The ability of a bank to repossess an asset significantly improves its ability to recover its loan principal, especially if the collateral value exceeds the principal due. Since the agencies have not committed to keeping this data confidential in perpetuity, we believe that limiting incorrect conclusions from the data is important.

(b) What is the burden of information collection?

The burden will require additional efforts to produce the Schedule because our risk-based pricing focuses on loss severity and frequency, not delinquency reporting. The Bank does not offer a "subprime lending program" rather; the Bank's risk-based pricing identifies subprime loans as a subset of its programs offered to borrowers, rather than as a specific borrower program. The collection of the delinquency information will cost 80 hours of programming time to place the reports into production as well as the additional time to prepare and verify the accuracy of each Schedule.

(c) *How can the quality, clarity, and utility of information on the Schedule be improved?*

We believe that a uniform definition of subprime loans based upon loss severity as implied by initial loan characteristics would add significant quality, clarity, and utility to the information. Additionally, as stated above, we recommend that automobile lending or other secured lending be added as a separate category from unsecured lending. At present, the agencies have chosen not to make the Schedule public. We believe that public disclosure of the Schedule as presently designed will increase the cost of accessing capital and debt markets due to the lack of a uniform subprime definition. That is, we believe investors may penalize all subprime lenders equally with the 300% risk weight whether appropriate or not. We base this concern on widening credit spreads for subprime lenders after the disclosure of Memorandums of Understanding with those lenders that increased the well-capitalized level due to the subprime lending concentrations of those lenders.

(d) *Suggest ways to minimize the burden of providing the required information for the Schedule.*

Either a bank will have the programming or querying ability to provide the requested information or it will be outsourced to a third party. The only tangible method to eliminate the burden would be to eliminate the reporting requirement and rely on existing examination techniques.

(e) *Estimate the costs to produce and maintain the Schedule.*

We believe that the additional programming time will cost the Bank $3,000, and the additional time to produce and verify each Schedule will cost the Bank $700.

We thank you for this opportunity to comment on the proposed Schedule.

Respectively Submitted,

Guy Du Bose
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Western Financial Bank

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