

September 10, 2002

Information Collection Comments

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

Dear Sirs:

Re: TFR Revisions, OMB No, 1550-0023

Home Federal Bank is taking this opportunity to express its views on the proposed *Agency Information Collection Activities*.

In understanding the context of our comments, you may need to know that Home Federal Bank is a \$723 million thrift institution, with 35 branch offices, located in South Dakota and southwestern Minnesota. Our bank is a community-oriented organization that has operated for over 70 years in a conservative manner with safe and sound business policies and practices. We offer the traditional banking services allowed by law and regulation and our vision is to "seek every opportunity to solve our customer's needs by identifying and presenting the right products and services". In doing this, we treat our customers and each other, with respect, honesty, integrity and fairness.

As a community bank, it has never been our intent to target subprime borrowers through subprime lending programs. Our goal is to be a profitable organization while meeting our obligations under the Community Reinvestment Act and the Equal Credit Opportunity Act. We meet the credit needs of our communities through safe and sound underwriting criteria and develop innovative credit products that allow us to extend credit to all qualified borrowers.

With that being said, we do not disagree that subprime lending activities should be reported on the TFR. However, we do believe additional guidance or clarification is needed in order for financial institutions and examiners to have a clear understanding on who needs to report and what needs to be reported. Without this guidance or clarification the proposed Agency Information Collections Activities could cause an undue reporting burden on community banks that do not specialize in subprime loan programs. Our comments are as follows:

Definitions

Program – In order to have less error in determining if a loan is subprime or not, the agencies need to provide more guidance on what constitutes a "program". Specifically, more guidance is needed when a prime program may continue some of the characteristics listed within the definition of a subprime program. For example, as a community bank, we have a prime program – sound underwriting and pricing that targets, on a regular basis, what we considered to be "qualified" borrowers. However, within our prime underwriting criteria and pricing schedule we include criteria which allows us to underwrite loans to individuals that may have one or more of the credit risk characteristics listed in the proposal such as two or more 30-day delinquencies in the last 12 months, bankruptcy in the last five years or a credit bureau risk score (FICO) of less than 660. Our program does not specifically target these types of borrowers in themselves but our underwriting and pricing procedures do address this type of borrower. As a community bank, we have learned that a person may have extenuating circumstances which may have caused that credit risk characteristic. In these types of cases, our lenders are trained to look at any extenuating circumstances that will mitigate these credit risk characteristics. Our concern with the proposal as written is that our program may be viewed as a subprime program by an examiner and then we would become subject to the new reporting requirements?

Subprime – The agencies need to give more clarification as to the definition of subprime. Specifically, the agencies should review the list of credit risk characteristics that is included in the definition of subprime borrower. We believe some of the risk characteristics, when taken individually, may not constitute a borrower to be a subprime borrower due to extenuating circumstances. These credit risk characteristics include:

Two or more 30-day delinquencies in the last 12 months - It has been our experience that two or more 30-day delinquencies in the last 12 months is not automatically a credit risk and cause to classify someone as a subprime borrower. In our underwriting experience, we have found there may be extenuating circumstances that have caused an otherwise good borrower to become 30-days past due. This could include lost mail, incorrect address, personnel emergency or even a national emergency (which we have recently experienced). In these cases two or more 30-day delinquencies in the last 12 months by itself would not be reason to classify a borrower as subprime. In addition, there are several government mortgage lending programs (FannieMae) and secondary lending programs (MGIC) that will allow a borrower to have anywhere from two to four 30-day late payments in the past twelve months without considering this borrower to be subprime.

Bankruptcy in the last 5 years – Bankruptcy in the last 5 years by itself should not be a credit risk characteristic that would cause a person to be classified as a subprime borrower. Again in our 70+ years of credit underwriting we have found that extenuating circumstances may have been the cause for the bankruptcy (medical). Our experience is that if a person has reestablished a sound credit history in the last 18 months since the date of bankruptcy, risk of default has dramatically decreased. A 24 month sound credit history seems to be a national benchmark, secondary mortgage markets will make a mortgage loan to this type of borrower after only a 24 month history of satisfactory credit since the date of discharge.

Relatively high default probability as evidenced by, for example, a credit bureau risk score (FICO) of 660 or below – A credit bureau score is only one predictor of the likelihood that you will repay your debt and should not stand alone as a determination for classifying a borrower as subprime. A score less than 660 in and of itself does not automatically mean you will automatically default on loan payments. A recent Fair Isaac report indicated that 11% of all borrowers had a FICO score of 600 to 649, of those borrowers there was a delinquency rate of only 31%. That means out of every 3 borrowers with a FICO score of 600 to 649, two of them repaid their debt as agreed. As a publicly traded financial institution we would be doing an injustice to our stockholders if we automatically denied a person with a 660 or below credit bureau score when statistics show that 2 out of every 3 of those borrowers would repay their debt. It should also be noted that there are several government mortgage loan programs that regularly approve borrowers for home loans with FICO scores below 660 and these are not considered subprime programs.

It is our opinion that the proposal should not state “subprime loans are loans to borrowers displaying one or more of these characteristics at the time of origination or purchase”. Based on the commentary above, we believe that a borrower displaying only one of these characteristics is not a subprime borrower. Banks that have borrowers with one of these credit risk characteristics should have sound underwriting criteria in place that will allow them to look at other factors that may mitigate this risk and make a sound business decision. If approved as written, the proposal, by stating that only one of these characteristics defines a subprime loan, will cause many community banks to incorporate these credit risk characteristics into their loan policies and underwriting criteria. They will do this to ensure that their loan program cannot be classified as subprime and that they don’t become subject to the regulatory burden of additional TFR reporting. This will have a negative affect on profitability for banks and on the availability of credit to those individuals that may possess only one of these credit risk characteristics.

Thank you for your consideration of our comments. If you have any questions, please do not hesitate to contact me at (605) 333-7556.

Sincerely,

Curtis L. Hage
Chairman & CEO
Home Federal Bank