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May 19, 2003

Fidelity BANK

Information Collection Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

RE: Thrift Financial Report: Schedule CMR, OMB No. 1550-0023

Dear Sir or Madam:

We are writing to comment on the proposed replacement of Schedule CMR of the Thrift Financial Report (TFR) with Schedule RED, as published in the *Federal Register* on March 20, 2003.

The OTS proposal suggests that the new "Schedule RED will simplify, and thereby reduce the burden of, the reporting process for both the OTS and reporting thrifts." However, converting to the new schedule will involve significant modification of existing preparation procedures and computer system reprogramming for both the OTS and thrifts. The price of this undertaking is difficult to estimate, but it will likely cost Fidelity Bank thousands of dollars in lost productivity to have employees develop, test, and implement the processes necessary to facilitate the conversion.

As the OTS points out, "The current CMR process is rigid in defining the data it accepts." This benefits us by providing consistency and a basis upon which quarterly comparisons can be made to help explain fluctuations in our portfolio. By increasing the granularity of the data, comparisons become more difficult and burdensome since fewer records make up each position, and fluctuations in balances and weighted-average calculations, as a percentage of the entire position, are greater. Increasing the burden will reduce thrifts' ability to review and verify the data due to time constraints. In addition, the likelihood of error in any given reporting position increases as the granularity of the data increases. The current CMR provides a manageable bucket structure, which simply needs to be adjusted, not replaced, as market interest rates shift. This is evident by the recent reduction of 2% in the interest rate buckets reported in several sections of Schedule CMR.

In its proposal, the OTS touts the reduction in the number of field definitions as a benefit to Schedule RED. However, this same reduction can be accomplished with Schedule CMR by reducing the redundancy in the instructions and providing a systematic approach to report preparation. The proposal suggests a reduction in the number of cells, or fields, in Schedule RED based on the number of instructions. However, the proposal fails to adequately estimate the number of positions a thrift would likely have to report. With coupon buckets in quarter-point increments, the base quantity of positions is quite large. For example, with mortgage rates ranging from 4.25% to 11.25%, fixed-rate mortgages would be reported in 28 positions, even before considering whether they are 30-year mortgages, 15-year mortgages, or balloons. The number of positions increases even more significantly when considering adjustable-rate mortgages where rate index type, index lag indicator, margin coupon buckets, coupon reset frequency, lifetime cap, and periodic cap and floor details become factors for parsing the data. These additional components will result in dozens, if not hundreds, of positions. This is clearly not a reduction in burden.

We feel that the proposal as published in the *Federal Register* to replace Schedule CMR with Schedule RED may be well intentioned, but it significantly understates the burden on thrifts. The benefits of a presumably more detailed NPV model are not outweighed by the increased cost to prepare the data used in the model. Since the NPV model is only one of the tools the OTS uses to monitor thrifts, it does not warrant such a costly and burdensome undertaking. Rather, Schedule CMR should continue to be used—recognizing that it may not be as precise as Schedule RED, but it is a reasonable alternative and provides a good benchmark for estimating interest rate risk.

Sincerely,

John Wm. Laisle

John Wm. Laisle
Executive Vice President & COO
Fidelity Bank, OTS Docket #06081