May 19, 2003

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

OMB No. 1550-0023
Re: Thrift Financial Report: Schedule CMR
Proposed Agency Information Collection Activities; Comment Request

Dear Sir or Madam:

Thank you for the opportunity to comment on the Office of Thrift Supervision's proposed replacement of Schedule CMR of the Thrift Financial Report with a new schedule to be known as Risk Exposure Data (RED).

As a manager within a thrift institution and a financial analyst, I applaud the OTS for its distinguished history of innovation and sophistication in its approach to measurement of interest-rate risk. The NPV model is a key resource for measuring interest-rate risk, useful to both OTS and to thrift institution managers like me. It is useful to regulators for ongoing oversight of the industry as a whole and for comparison between individual thrifts, highlighting areas for further investigation through the exam process. For bank managers like me it is a sophisticated second opinion on the interest-rate risk exposure of this institution and provides a unique comparison to peers.

The collection vehicle for all the institution-level inputs to the NVP model is essentially important to the process, whether that collection vehicle is Schedule CMR or Schedule RED. Schedule RED builds on the already very useful core of the CMR and has the potential to be a major improvement. I believe it offers significant benefits in form. However, I believe that there are significant potential problems in execution of the proposal as currently described.

Need for Privacy
Financial modeling succeeds through accumulation of detailed essential data on each institution. Schedule RED will increase the detail of data being accumulated, even to collection of account-by-account data. There is no mention in the proposal of the need to protect the confidentiality of this information. This information, especially in the detail suggested in the proposal, must be protected and held in confidence by the regulator to avoid risk of harm to both the financial institution and its borrowers and depositors. I believe that if it cannot be protected and held in confidence, it should not be gathered.

Increased Flexibility vs. CMR
The major benefit of a change to Schedule RED will be in the increased flexibility of the new form. It recasts the interest-rate risk collection form into a more flexible open format by replacing fixed-definition numbered entries with columns of essential financial characteristics. Detail will be collected by row, with each row representing a distinct asset or liability of the financial institution. The minimum detail (maximum aggregation) to be provided will be established (and redefined as need be) by the OTS through the instructions, while additional detail (rows) can be provided by the reporting institution to avoid loss of important detail by over-aggregation.

Not Simplification or Burden Reduction
This will not, however, result in simplification or burden reduction. Schedule RED will result in a very large increase in the reporting burden. While the field count and instruction count have been cited as proof of simplification, a more accurate measure of the burden is data point count. Each separate data point must be implemented by programming logic and/or data-entry training.

An example of the burden increase is the Schedule RED proposed a change from five 100-bp ranges to 25-bp ranges as needed. This requirement will increase the number of aggregation rows from 5 to 24 for a mortgage portfolio of loans with interest rates dispersed over a 600-bp range. Since each aggregation row has 10 data points, the data point count goes up from 50 to 240 for 30-year fixed rate mortgage loans alone. Since each aggregation rule multiplies the data points, the number of data points reported will increase rapidly. Adjustable-rate mortgages have nine aggregation rules with fourteen data points for each group. Yipes!

It seems clear that aggregation rules should be pared to a minimum to contain this problem. In addition, the complexity of simply complying with the aggregation rules makes it seem unlikely that institutions will be expending resources to further dis-aggregate lines of data.

A possible improvement that might address the problem of multiplication of data points would be to superimpose some rule of significance. For example, Schedule RED instructions could allow further aggregation of any line comprising less than 2 % of assets or liabilities. Another approach might be a hierarchy of dis-aggregation rules that would be sequentially applied until completed or until when the line drops below some level of significance. Unfortunately, neither of these suggestions would be simple to implement.

Separate reporting of significant dissimilar groups is important, but it is wrong to say that this form will be easier to complete than Schedule CMR.

Subsequent Evolution of Schedule RED

The greater flexibility of Schedule RED makes it easier to implement changes without form redesign, but it will not be easier to implement changes in instructions. For future instruction changes, each separate data point must again be implemented by programming logic and/or data-entry training. As a result, it will be important to limit subsequent instruction changes as much as possible to minimize the ongoing reporting burden.

Implementation Questions

Schedule RED proposes or requires collection of data from various sources and of various types never before assembled in one place by this institution. This can be accomplished, but it is uncertain exactly how. A separate proposal has been made to shorten filing deadlines for Schedule CMR. The shorter deadline adds questions about implementation, both initially and in subsequent reporting periods as Schedule Red evolves.

Conclusion

Thank you for the opportunity to comment on this important matter. Schedule RED shows promise as a next generation improvement on the strengths of the CMR based interest-rate risk measurement model. I appreciate and commend OTS for its work with the industry on this regulatory and management tool.

Should you have any questions, contact the undersigned at 262-797-3329 or via email at dwallach@northshorebank.com.

Sincerely,

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