Sovereign Bank

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June 4, 2003

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

VIA FACSIMILE

Re: TFR Revisions, OMB No. 1550-0023 - Replace Schedule CMR with Schedule RED

Dear Sir or Madam:

Sovereign Bancorp, Inc. is pleased to submit this letter presenting our comments on the Office of Thrift Supervision (OTS) proposal to replace schedule CMR with schedule RED as detailed in the Federal Register on March 20, 2003.

We at Sovereign greatly appreciate the efforts of the OTS to improve the NPV interest rate risk model. We do not use the OTS model as the primary tool to manage our interest rate risk. However, we do compare the results of OTS model to our own interest rate risk model on a quarterly basis.

Based upon our analysis, we agree with the OTS assertion that the current model has certain sections which lack finer details which would make the model more precise. Additionally, we concur with the OTS assertion that the current OTS model does not have the flexibility necessary to reflect significant changes in the interest rate environment. Accordingly, we agree that the changes suggested in the proposed schedule RED should increase the granularity of rate and maturity information, which should result in a more accurate interest rate risk measurement. Furthermore, we agree that an open-ended model, such as the RED, would add the flexibility necessary to reflect significant changes in interest rates. However, we strongly disagree with the OTS assertion that the proposed schedule RED will decrease the financial reporting burden (see details below).

In response to your request, we submit our comments listed below. Realizing the importance of improving the current NPV model, we are assuming that the OTS will adopt some form, or components of the schedule RED. Accordingly, in our comments below, we are suggesting changes to the RED, as proposed, in the hopes that the final version of RED will provide a more effective interest rate management tool, while not becoming a reporting burden. We have also included various other comments which relate to the NPV model.

Schedule RED may not reduce burden

While the schedule RED has significantly *less required fields* (balance, coupon, maturity, etc...), it requires a further breakdown of the different asset and liability groups into smaller pools or *positions* based upon like criteria. The number of positions an institution must report is determined by the "aggregation rules" of the RED instructions. The aggregation rules will break out the assets and liabilities into different pools based upon three to five characteristics (depending upon the asset or liability) with each characteristic having anywhere from two to twenty choices. Consequently, an institution could have well over 100 combinations, or positions, for just one type of loan or investment security. The result of this tradeoff is that institutions will report a little less information about each position, while at the same time be required to significantly more positions – resulting in a net increase in data fields reported.

For example, in the CMR report, fixed rate mortgages required that 4 fields be reported for assets spanning 35 positions (7 loan/MBS types over 5 interest rate bands (100bp increments)) or a total of 140 data points. However, for fixed rate mortgages, the RED report will require 5 fields over approximately 168 positions (7 loan/MBS types over 24 interest rate bands (25 bp increments)) or a total of 840 data points.

The RED will cause similar increases in information reported in Adjustable Rate Mortgages, Second Mortgage Loans, Commercial Loans, Consumer Loans, and Deposits.

Schedule RED – suggested changes

As noted above, the "aggregation rules" which are defined in schedule RED, will require the reporting of a separate position for each pool of assets and liabilities that possess common criteria. Accordingly, for each additional criterion listed, there exists multiple combinations with the criteria from other criteria groups, and hence, an increased number of data points. Conversely, a reduction in any of the criteria will result in a multiple reduction in data points. We suggest that aggregation rule criteria be reduced wherever possible. Accordingly, we have listed below suggested changes to the aggregation rules.

Any reduction in these criteria will ease the reporting burden. However, a reduction in these criteria may result in less granularity of the model. There is a tradeoff to consider - which data are relevant and necessary to the model, and which will not add significant precision to the NPV model. We feel that the following suggestions will not significantly compromise the effectiveness of the model.

- Fixed Rate Loans and MBS - Interest Rate Bands – We believe that changing the interest rate bands from 25 to 50 basis points will significantly reduce the number of positions reported (probably cut data points in half), while still providing relevant data for the NPV model. This suggestion is based upon the industry standard of packaging MBS in coupon ranges of 50 bp. Additionally, all interest rate shock information for MBS is provided in no less than 50 bp increments.

- Adjustable Rate Loans and MBS - We feel that the aggregation rules for adjustable rate loans in RED could result in hundreds of positions. This is due to the combinations of the rate index criteria with the margin range criteria (margin ranges are shown in 25 bp increments). We feel that limiting the rate index to the top two or three, and then suggesting all other indices be grouped together could greatly reduce the number of positions, yet still yield sufficient detail. Likewise, the margin increments might be reduced to 50 bp bands instead of 25 bp.

Credit Rating and Loan-to-Value Information

We have noted the inclusion of new fields on schedule RED which are not on the CMR, including the optional criteria of credit rating, loan to value ratio, and zip code. While these fields are labeled as optional, we are curious as to why this information is being collected on an interest rate risk report. Obviously, there is a strong relationship between a customer's credit rating and the pricing of a loan. However, the addition of these criteria could multiply the amount of positions reported in the loans section, making the data-sorting task an ordeal. Accordingly, we feel that the NPV model is not the appropriate place to collect these types of information.

Submission of raw data

We have a number of questions regarding the process for the submission of raw data. For example, would the submission of raw data be available to larger institutions, where certain TFR lines might consist of 500,000 loans or more? More information on the raw data submission process would be helpful in understanding whether or not this option would be useful in the submission of schedule RED.

Additionally, how will the OTS address privacy issues in the submission of raw data? It makes sense that key personal information should be excluded from any data files sent to the OTS. We assume that there should be some identifying data point for each loan, possibly the loan number. Accordingly, it would be useful if the OTS would give guidance as to the privacy issues.

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Conclusion

Based upon our review of the proposed schedule RED, we have concluded that the changes suggested are ambitious. The format of the schedule and the related instructions are very comprehensive. However, we feel that there are several practical issues that must be resolved before such comprehensive changes are implemented. After consideration of our suggestions and those of other savings institutions, we suggest a revised draft of schedule RED be released for comments. We believe that a 60 day comment period on such a comprehensive rewrite of the interest rate risk model is too short for institutions to assess the impact and potential problems – especially if the comment period is during the reporting cycle. We thank you for the opportunity to comment on the proposal.

Sincerely,

Robert L. Crane

Robert L. Crane, CPA
Director of Regulatory Reporting