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May 29, 2003

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

Re: Proposed Agency Information Collection Activities: Comment Request
Thrift Financial Report: Schedule CMR
68 FR 13758 (March 20, 2003)

Dear Sir or Madam:

America's Community Bankers ("ACB")¹ welcomes the opportunity to comment on the proposed replacement of Schedule Consolidated Maturity/Rate ("CMR") of the Thrift Financial Report ("TFR") with a new schedule to be known as Risk Exposure Data ("RED").¹ The Office of Thrift Supervision ("OTS") has issued the proposed schedule RED with a goal of reducing the data collection burden on associations while at the same time increasing the granularity of the data collected and the flexibility of the structure under which it is collected. The agency also has a goal of increasing the flexibility of the OTS's Net Portfolio Value (NPV) model and assisting the OTS in better monitoring individual and system-wide credit risk.

ACB Position

ACB supports OTS's efforts to improve and simplify the financial reporting for savings associations. Generally, we favor the more open and flexible reporting mechanism envisioned by RED, particularly if the results include the ability of the OTS to provide more stratified valuation outputs to the industry. We believe that such a mechanism will assist the OTS in better measuring each association's and the industry's interest-rate risks.

However, we are extremely concerned that the proposed RED will result in a significant increase in the reporting burden for OTS-regulated institutions. In addition, we believe that some of the information proposed to be collected will not materially enhance the interest-rate risk valuation process or significantly change the resulting risk profiles of individual associations. In particular

¹ America's Community Bankers represents the nation's community banks. ACB members, whose aggregate assets total more than \$1 trillion, pursue progressive, entrepreneurial and service-oriented strategies in providing financial services to benefit their customers and communities.

¹ 68 Fed. Reg. 13758 (March 20, 2003).

we do not believe that the reporting of some of the credit data, zip codes and other non-interest related information is necessary.

Burden Reduction

While the proposed RED is intended to reduce regulatory burden on savings associations and the OTS, we do not believe that in the current form that will happen. The number of fields has been reduced, but within the fields the number of data points is increased because of the aggregation rules. The coupon buckets for mortgages and mortgage-backed securities on RED are in 25 basis point increments. For example, if an association has 30-year mortgage loans with coupon rates ranging from four percent to nine percent, that results in 120 data points on RED, assuming the optional data fields are not included. Information on adjustable rate mortgages increases the reporting burden.

Requiring information in such narrow increments does not always make sense. Pricing for mortgage-backed securities is based on 50 basis point bands. In addition, for certain products the coupon bands may need to be much wider because prepayment or other characteristics may be similar regardless of coupon ranges. An association also may elect to aggregate some instruments in a less stratified manner if the balances are not material for the overall risk profile.

Further, RED's maximum aggregation rules for adjustable rate loans are too restrictive. The proposal provides for a 100 basis point band for aggregating such loans based on the "distance to lifetime cap" as well as a monthly band for "reset frequency." These bands are not realistic. An association should not be able to aggregate instruments in a more highly aggregated manner if the balances are immaterial to the overall risk profile.

An alternative identified by the OTS is the possibility that associations may chose to submit account-by-account tapes of the data. This is certainly easier for the association, however, we are concerned about how the information would be transmitted to the OTS and how the OTS would process and read it. If this option were adopted, would associations be required to reprogram all files? We also suggest that transmission of the amount of this type of data would require additional security to ensure that confidentiality be maintained.

Finally, the reporting of information on the proposed RED related to "loan memoranda" (type of loan, warehouse, non-performing, etc) generally is not useful for determining the interest-rate sensitivity of an association's balance sheet. The reporting of such information would substantially increase the volume of data submitted to the OTS and the time required to obtain the data without enhancing the valuation process or changing the resulting risk profile.

While the timing of the filing of proposed Schedule RED is not addressed in the proposal, ACB urges the OTS not to shorten the 45-day time period to 30 days. Such a change should only be made after associations have had the opportunity to make changes to systems to accommodate the differences between RED and CMR.

Optional Data

ACB also is concerned about the optional credit data that the OTS suggests be submitted. We do not believe that the credit data requested should be used to determine an association's interest rate risk. The reporting of information related to loan-to-value ratios, credit ratings or credit-rating types would not materially improve the net portfolio valuations, but it would substantially increase the reporting burden. Should credit information be required at some point in the future, systems will have to be changed to capture the information. The vast quantity of information suggested is overwhelming for some associations. We also urge that this type of information should not be publicly available.

The proposal also requests information on a borrower's zip code. It is unclear if the reporting of such information is mandatory. The preamble suggests that the reporting of zip codes is optional, while the CMR/RED comparison indicates that the location of the loans is a required field. Stratifying loans by zip code would result in large volumes of potentially meaningless data. We do not believe the valuation process would be enhanced with this information.

Confidentiality of Information

Currently, information reported on the CMR is confidential. However, the proposal does not indicate whether information reported on the RED will also be confidential. We believe any revisions to the TFR should specify that information provided on the RED will be kept confidential. The willingness to report detailed information will decline if the information is publicly available. ACB urges the OTS to clarify that the RED would be confidential and that additional procedures would be in place to ensure that it remains confidential.

Possible Benefits of the RED

Despite the above concerns, we do support the OTS's desire to address some of the shortcomings in the current NPV model that are caused by the way data is collected. For instance, the current NPV model does not accurately capture the price sensitivity of certain products. These shortcomings may result in incorrect or misleading risk profiles. Some of these modeling deficiencies result from the restrictive requirements for reporting information on the CMR. A more flexible approach may result in enhanced price estimates and a more accurate risk profile. Below are some examples of how the RED will address current CMR shortcomings

- The CMR does not differentiate between COFI, MTA or other types of lagging indexed loans or securities. Instead, the CMR and the OTS's valuation model aggregate all types of lagging indexed loans into one pool. This broad aggregation may result in significant distortions in the margins, weighted average coupons, caps and floors, thereby resulting in a distortion of the base price as well as the price sensitivity. The adoption of RED would lessen this distortion.

- The CMR aggregates all fixed rate loans into 100 basis point bands with all loans under seven percent aggregated into one bucket. RED would result in the improvement of the valuation of these instruments with the use of narrower bands.
- The CMR aggregates adjustable rate securities and mortgage loans. The valuation would be enhanced if there were a differentiation between mortgage securities and mortgage loans.

Overall, the highly aggregated approach used in the CMR does not result in the most realistic valuations. A more flexible reporting mechanism and valuation model would enhance the accuracy of price estimates and the risk profile.

However, some of the possible benefits to associations may not be achieved if the valuation output provided to the association is not improved. We urge the OTS to consider providing the same degree of stratification in the valuation output as is reported to the OTS. This more specific output would aid associations in comparing the OTS's valuations with their own internal valuations. It would also be beneficial if the OTS provided additional information on the assumptions used to value the different products. For example, information relating to prepayment assumptions is limited but is of significant value to institutions for comparing their internal valuations to the OTS's valuations.

Conclusion

ACB supports a more flexible and less burdensome reporting requirement to measure interest-rate risk. Any changes to the current CMR should only be made if they improve OTS's interest-rate risk monitoring capabilities and do not impose undue burdens on reporting institutions. The proposed RED should be modified with these goals in mind.

We appreciate the opportunity to comment on this important matter. We stand ready to work with the OTS to continue to improve the form of the input for interest rate risk analysis. Please contact the undersigned at (202) 857-3121 or cbahin@acbankers.org if you have any questions regarding this letter.

Sincerely,



Charlotte M. Bahin
Senior Vice President, Regulatory Affairs