17

October 2, 2000

Manager, Dissemination Branch
Attention: 1550-0023
Information Management and Services Division
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

The Financial Institutions Accounting Committee (FIAC or the Committee) is pleased to have the opportunity to provide you with our comments and observations related to the proposed changes to the OTS thrift financial report (TFR). FIAC is a group of 14 financial professionals working in executive level positions in the thrift and banking industries and is sponsored by the Financial Managers Society. FIAC's primary responsibility is to evaluate those accounting and regulatory matters that affect financial institutions. The comments within this letter are representative of FIAC as a whole and do not necessarily reflect the views of the individual institutions represented on the Committee.

<u>Summary</u>

In general, FIAC members do not believe that the additional benefit derived by the OTS in collecting the information specified in the "Proposed Agency Information Collection Activities" document justifies the additional one-time costs of modifying accounting and operational systems and the on-going costs of collecting the information. The responses below are numbered in correlation with the OTS proposal.

1. Nontraditional Lending – Subprime loans

The OTS has not proposed, and FIAC does not believe that there is, a workable definition for subprime loans. A workable definition is necessary in order for institutions to prepare the TFR. Institutions must have a clear understanding of the definition of a subprime loan in order to determine the exact amount of loans to characterize as subprime.

If a workable definition of subprime loans were possible, and if this information were required to be reported in the TFR, institutions would then be forced to allocate significant resources to identify and classify existing loans in accordance with this definition. Most of the proposed criteria, while found in the loan file, are not maintained by most lenders in their automated loan portfolio systems. While the interest rate and loan-to-value ratio data are maintained in most loan portfolio systems, data related to FICO scores, debt-to-income ratios, delinquency history, bankruptcy status, and credit history is generally not maintained. Institutions would first have to reprogram their systems in order to provide fields for the maintenance of this data. In addition, they would be forced to retrieve loan files from loan vaults and manually recreate this data in an automated form. And finally, their reporting systems would have to be updated to permit institutions to monitor and evaluate the data collected on subprime loans in an ongoing manner.

FIAC members believe that the abuses associated with subprime lending have been perpetrated by non-regulated institutions. The proposed approach of requiring regulated institutions to allocate significant resources to resolving a problem associated with non-regulated institutions would place regulated institutions at a further disadvantage in making non-abusive subprime loans. Such an approach would seem to defeat the goal of making credit available, at an affordable rate, to all segments of the population.

4. Definition of Mortgage Loans

FIAC agrees with the redefinition of mortgage loans to include all loans predicated upon a security interest in real property, that is, a loan secured wholly or substantially by a lien on real property for which the lien is central to the extension of the credit. However, as noted, real estate secured loans that will be reported as nonmortgage loans are those that are otherwise substantially secured, where the mortgage was taken as an abundance of caution.

We concur that this change will put virtually all mortgages together in the same location on the balance sheet and will make the TFR consistent with the Call Report.

5. Junior Liens

FIAC agrees with the proposal to add a breakdown between first liens and junior liens in the category "Permanent Mortgages" on 1-4 dwelling units. The addition of this line item will permit the OTS to more effectively monitor the potentially riskier junior lien market and will provide greater consistency with the Call Report.

14. Board of Directors' IRR Limits

The Committee sees little benefit to adding Board of Directors' interest rate risk (IRR) limits to the data collected by the TFR. Unlike the TB13a approach, the application of internal Board limits involves a high degree of subjectivity utilizing many factors and business judgments that are not and cannot be captured by the TFR. While these subjective factors and judgments are considerations in establishing Board IRR limits, they may also serve as the basis for temporary, well founded, prudent departures from those limits. Without the benefit of Board level background information with respect to IRR, the review of compliance with Board IRR limits would have as great, if not a greater probability, of leading to an erroneous conclusion as it would to a valid early warning signal for safety and soundness monitoring.

As a result, we feel that the probability for unwarranted and unnecessary investigation and resolution of concerns by the OTS and association management far outweighs any potential benefit to be derived from the collection of this data.

19. Holding Company Financial Information

The Committee feels that the TFR is not the appropriate vehicle for the collection of holding company financial information. This view is based upon the premise that the focus of the TFR is and should continue to be on the collection of data on the OTS supervised thrift rather than the entity exercising ownership control over the thrift. To the extent the OTS wishes to capture data on transactions and relationships between the thrift and its holding company, this review and reporting would be appropriately done by and from the perspective of the OTS supervised institution not that of the holding company. Extending TFR reporting to include data on thrift holding companies unnecessarily blurs and potentially obfuscates the distinction between the OTS authority over supervised institutions and such institutions' holding company affiliates.

The current HB 11 quarterly reporting process is an adequate means of collecting information on holding company consolidated financial data and other activities. Should the TFR initiative be implemented as proposed, we would ask you to address any potential duplication of efforts that would occur. More importantly, should the holding company information reporting requirement be adopted as proposed, we would seek clarification to the following: We are aware of complex thrift ownership structures under which significant ownership of the thrift rests with one or more individuals or entities apart from the formal thrift holding company into which the thrift is consolidated for GAAP reporting purposes. We would like to clarify our understanding that under this proposal, the determination of the holding company entity on which data is to be collected would follow a GAAP-based consolidation definition. Under this framework, the entity into which the thrift is consolidated under GAAP rules would be the reporting unit.

20. Transactions with Affiliates

Much of the information related to transactions with affiliates, proposed to be requested in Schedule SI of the TFR, is already captured in Schedule HB 11, the Bank Holding Company schedule. We therefore recommend that off-site examination staff refer to the HB 11 for this information or that the OTS remove Schedule SI from the HB 11.

21. Fiduciary and Related Services

We would like to limit our response to the first two issues on which comment is sought.

Issue No. 1

The $100 million in fiduciary assets criteria appears to be too low a threshold. This assertion is based on the premise that the purpose of this new reporting requirement is to capture an increased, more timely level of data for trust operations when such operations comprise a significant component of the operations of OTS supervised institutions. While trust revenue greater than 10% of net interest plus non-interest income indicates a fiduciary operation that may be significant relative to the total institution, for larger institutions, the $100 million fiduciary asset threshold may result in a relatively insignificant trust operation being subjected to the reporting requirements. We would like to suggest that the scope criteria be changed to "fiduciary assets greater than $100 million and fiduciary income greater that 10 percent".

Issue No. 2

We would like to begin by establishing that trust assets are at times maintained on separate accounting systems housed and operated by trust department personnel. Under well established law regarding fiduciary responsibilities, access to these systems and the data housed therein is strictly limited to trust personnel who have direct responsibility over asset administration along with internal and external auditors who exercise oversight authority. As a result, the compilation and reporting of the information regarding fiduciary assets involves a level of logistical complexity that does not exist for most if not all of the other data contained in the TFR. As a result, we feel it is neither practical nor appropriate to incorporate the collection of fiduciary asset information into the TFR, particularly within the present 30-day filing requirement for the TFR.

31. Eliminating Confidential Treatment for Certain Interest Rate Risk and Past Due Data

The Committee is highly supportive of any efforts to enhance full and fair disclosure of meaningful financial data. However, we feel that neither the disclosure of Schedule CMR data nor Schedule PD30-89 day delinquency data would further the full and fair disclosure objective. Moreover, we feel that such disclosure could actually be counterproductive by introducing a significant level of increased complexity, confusion and misstatement to the area of interest rate risk (IRR) reporting.

The OTS has recognized and acknowledged that the stratification of assets and liabilities in schedule CMR may not represent the most accurate representation of an institution's interest rate risk profile. This is evidenced not only through verbal communications with OTS Capital Markets staff, but also through the TB-13 and TB-13a requirements that "large" institutions employ their own IRR models and reconcile the output from such models to that from the OTS, CMR based model.

We feel strongly that placing the stratified asset and liability data collected by the CMR in the hands of analysts, rating agencies and large institutional investors would result in numerous, highly varied and potentially erroneous and misleading conclusions drawn by the various users of the data as to the reporting institution's IRR profile.

This concern is furthered by our observation that in the area of IRR, the investment community is concerned primarily with the impact on earnings rather than NPV. With the understanding that Schedule CMR is designed to capture data for purposes of calculating NPV only, we have a high degree of concern that potential users of the CMR data would attempt to utilize the data for a purpose for which it was not intended with a resultant problematic outcome.

As to disclosure of Schedule PD information, it is the experience of a number of members of the Committee that the level of 30-89 day delinquencies can fluctuate dramatically based upon the number of calendar days in a month and which day of the week on which the last business day falls. As a result, 30-89 day delinquency levels may not provide a meaningful or particularly useful indication of asset quality trends. This in turn could create a situation in which reporting institutions would spend more time explaining why the additional data is not meaningful than they do addressing important fundamental financial trends.

We appreciate the opportunity to comment on the proposed changes to the TFR. FIAC would welcome the opportunity to provide input on any additional matters involving the proposed changes.

Sincerely,

William C. Nunan
Chairman

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October 3, 2000