



Sovereign Bank

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October 5, 2000

Manager, Dissemination Branch
Information Management and Services Division
Office of Thrift Supervision
1700 G Street N.W.
Washington, DC 20552
Attn: Ms. Trudy Reeves

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DISSEMINATION BRANCH
OFFICE OF THRIFT SUPERVISION
WASHINGTON, DC 20552

Dear Ms. Reeves,

This letter lists our response to the request for comments on the new reporting requirements, which will go into effect in March 2001. We have only commented certain items.

Response to OTS Request for Comments from Sovereign

- (1) High Loan to Value Loans - Sovereign's residential mortgage servicing system (Fiserv - Mortgageware) does have a field to provide the loan balances with High Loan to Value (LTV) ratios as requested by the proposed requirements. However, that field only reflects loan to value ratios in excess of 80%. It does not provide the detail of 80-89%, 90-99%, and 100% plus. Any attempt to collect this detail would require programming modifications. Even if the programming was purchased, it may not be ready in time for March 2001 reporting.

Another consideration is the maintenance of the appraisals used to calculate the Loan to Value Ratio. To ensure that the appraisal field reflected the most current information would require additional headcount or an outside appraisal services (which might also require system modifications). Either option would require added expense and might not be complete by March 2001.

The Fiserv - Mortgageware system does not have a field for non-accrual High LTV loans. One way to remedy this would be to add a field for this which would require reprogramming the Fiserv servicing software. The other option is to keep track via a spreadsheet, which would require additional staff. The write-off and recovery information for residential mortgages will experience the same problem as the non-accrual loans.

Sovereign has a large Service by Other residential mortgage portfolio (approximately \$3 billion). In this case, Sovereign would have to rely on third party servicers to provide the High LTV information. Some of our larger servicers can provide the High LTV balances, but may face the same problem Sovereign does for the non-accrual and writeoff information. Many of our smaller servicers may not have the ability to provide this information, and are not required by contract to provide this information.

Similar problems exist with Sovereign's Commercial and Consumer loan subledgers. Current systems do not provide the detail required for the new requirements and would require system modifications or the creation of ad hoc reports.

Likewise, the non-accrual, writeoff, and recovery information for commercial and consumer loans will experience the same problems as that in the residential portfolio.

- (2) Sub prime lending – We do not suggest a definition of sub prime lending. However, we feel the following items should be considered in formulating your definition for residential subprime loans:

In today's underwriting environment, we are unable to narrowly define subprime lending by traditional criteria such as loan to value ratios, FICO scores, debt ratios, or mortgage payment history. This is mainly due to the blurring of the line between traditional conventional lending, and other non-traditional forms such as Subprime, A-minus, and Alternative A loans. Even FNMA and FHLMC have erased the traditional boundaries and criteria that were used to neatly segregate various types of credit characteristics and loan products through the advent of automated underwriting modules. We might even consider that some of our FNMA /FHLMC product might be considered subprime.

We are not sure how to accurately identify a subprime residential mortgage. However, we believe to define a subprime credit as one less than a specific FICO score, and greater than a specific debt ratio is not correct.

For a definition of subprime consumer and commercial loans, we make no comment.

- (3) Public Disclosure of Past Due Information – Making past due information in the TFR available to the public would display information on the 30-89 days past due loan balances which Sovereign has not previously disclosed publicly. We feel that this information is *not comparable among institutions* as an indicator of credit deterioration. Since Sovereign has an aggressive collection policy which acts on these early delinquencies, our institution may have better success than other thrifts at bringing these delinquencies current. Accordingly, we disagree with the proposal to make this information public.
- (4) Trust Information – We suggest that the trust information be reported on an *Annual Basis*. If reporting this information only once a year would be acceptable to the OTS (as in the reporting of Small Business (SB), Branch Office Survey (BOS), and Subordinate Organizations (SSO)), an off quarter such as March would even out the reporting load throughout the year.

Summary

In order to meet the proposed requirements, Sovereign may have to make system modifications that in some instances may be very costly. In addition, it may not be feasible to complete some, if not all of the system modifications by March 2001. We would expect that other thrifts would experience the same problems, since the Fiserv is a popular servicer used by hundreds of thrifts throughout the country.

Thank you for allowing us to respond subsequent to the original deadline. A lot of research and investigation went in to these comments. I hope they help.

Call me at 610-988-0341 if you have any questions.

Sincerely,



Robert L. Crane

Vice President

Assistant Controller – Financial Reporting

Cc: Dennis Marlo, Chief Financial Officer
Mark McCollom, Chief Accounting Officer
Larry Davis, Corporate Controller

Via Fax