

February 18, 2003

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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW.
Washington, DC 20552

Subject: Attention: No. 2002-64, Transactions With Affiliates of Savings Associations

Dear Ms. Osterloh,

Principal Bank appreciates the opportunity to comment on the above-cited interim final rule regarding Transactions with Affiliates of Savings Associations.

Introduction. Principal Bank is a FDIC insured savings bank with a home office in Des Moines, Iowa, and is a member of Principal Financial Group. Principal Bank's focus is on electronic banking and it does not utilize a traditional "brick and mortar" branch strategy. Our distribution channels include the Internet, a call center and mail. Principal Bank was chartered in February 1998 under a federal charter and is regulated by the Office of Thrift Supervision (OTS).

Principal Financial Group (The Principal®) is a leading global financial institution offering businesses, individuals and institutional clients a wide range of financial products and services including retirement and investment services, life and health insurance and mortgage banking. Headquartered in Des Moines, Iowa, The Principal® serves more than 13 million customers worldwide from offices in Asia, Europe, Latin America and the United States.

Background. This letter provides Principal Bank's comments on the interim final rule to conform the Office of Thrift Supervision regulations governing transactions between savings associations and their affiliates to the Federal Reserve Board's Regulation W. That regulation implements restrictions on affiliate transactions contained in section 23A and 23B of the Federal Reserve Act and revisions included in the Gramm-Leach-Bliley Act. This letter is directed primarily to those sections of the interim rule providing guidance on additional restrictions on affiliate transactions applicable to thrifts.

At the outset, our positions are based on a simple premise. To the extent possible, savings associations should be treated no harsher than national banks or other institutions subject to the restrictions of section 23A and 23B and the implementing Regulation W.

Control Rules. We believe that the more expansive control rules in 12 CFR 574 should be conformed more closely to the control concepts set out in Regulation W. While Section 11(a) (4) of the Home Owners Loan Act permits the OTS to impose additional restrictions on savings associations transactions with affiliates, it is hard to see what purposes are furthered by a more expansive definition of control than provided by the Federal Reserve Board under Regulation W. Given the broad authority that the OTS has over member institutions to limit any transactions or

relationship that impacts the safety and soundness of a thrift, expanding this definition is unnecessary. Unless there is a specific, well-articulated reason for additional restrictions to be placed on thrifts that were not placed on banks, the OTS should conform their rules more closely to Regulation W. It is our position that there is insufficient reason for this additional regulation.

Third Party Attribution Rules. We agree that thrifts should not be subject to Regulation W's third party attribution rule, and respectfully request that the OTS not a third party attribution rule either directly or indirectly. The language of section 563.41 (c) (1) is clear and sufficient, "This paragraph (c) (1) does not prohibit a loan or extension of credit to a non-affiliate, merely because proceeds of the transaction are used for the benefit of, or transferred to, an affiliate." Further guidance should not be included.

Purchase of Assets Subject to Agreements to Repurchase. Principal Bank believes that the limited opportunity for purchase of assets subject to repurchase set out in section 563.41 (c) (1) should not be limited or discarded. The limited type of transactions allowed by this section present very minimal risks. This type of transaction, although limited in scope, may provide value to certain member institutions.

Financial Subsidiaries. We agree with the OTS position that, based on your record with no significant problems in this area, there is no need to apply affiliate restrictions to thrift subsidiaries by classifying them as financial subsidiaries.

Imputing Activities of a Subordinate to the Parent Company. Principal Bank maintains that existing guidance on imputing activities of subordinates to affiliates that are not savings associations should not be codified in this regulation. Particularly in the context of a thrift with insurance or security affiliates, imputing activities throughout the organization is burdensome, particularly in light of the restrictions that already exist that must be satisfied. This additional requirement of imputing the activities of a subordinate to a parent is unnecessary given the existing controls that already exist over transactions with affiliates.

Your consideration of these comments is greatly appreciated. If you have any questions, or would like any additional information please do not hesitate to call me at (515) 883-9201.

Sincerely,

Joel S. Hjelmaas
VP and Chief Compliance Officer
Principal Bank