DOWNEY SAVINGS

25

October 3, 2000

Manager, Dissemination Branch
Information Management and Service Division
Office of Thrift Supervision
1700 "G" Street, NW
Washington, D.C. 20552

Re: Proposed Changes to the 2001 Thrift Financial Report

Dear Ladies and Gentlemen:

Downey Savings and Loan Association, F.A. ("Downey Savings" or "Association"), is a federal association headquartered in Newport Beach, California, with assets over $10 billion. We respectfully submit our comments on the proposed changes to the Thrift Financial Report ("TFR").

We acknowledge the OTS' need to collect information to enable the offsite monitoring of lending activities, in particular those activities that may increase insured institutions' credit risk exposure. However, Downey Savings is concerned with the definitions contained in the proposal, as they are vague and will likely result in different interpretations and application between thrifts rendering comparability difficult at best.

The proposal labels high loan-to-value loans ("High LTV loans") and subprime loans as "nontraditional lending". This designation is relative to how one defines "traditional lending". As with the term subprime, the definition of "traditional lending" varies greatly depending on the institution, its lending expertise, niche, risk tolerance and historical performance. The "nontraditional" label may also further reinforce the misperceptions linked to these types of loans and undermine their purpose, which is to offer affordable credit to those who may not otherwise qualify for "traditional" loans. With appropriate controls and oversight, these types of loans enable first time homebuyers and low and moderate-income individuals to qualify for a loan, notwithstanding little or no down payment, limited or no credit history or a 'less than perfect' credit history. We believe that existing consumer protection laws and related regulations coupled with regulatory oversight provide adequate controls to ensure prudent lending standards without inhibiting worthy community lending programs.

Downey Savings also objects to the proposed definition of subprime lending. As proposed, the definition is too broad and not precise enough to ensure consistent application. The proposed definition hinges on the identification of those customers that may present a higher risk of default than traditional bank lending customers. As evident in your request for comments, there is not one single formula to identify this type of borrower. While the reliance on credit scores, credit history, prior bankruptcy may seem to drive the initial identification, the facts are weighed and applied differently depending on the associations' risk tolerance and past experience. There are also mitigating factors (low loan to value, cash reserves, and job stability) that are not reflected in the scores or credit reports but which may also enter in the assessment of "higher risk". If reporting of subprime loans is ultimately required, Downey Savings urges the OTS to further refine the subprime definition. The absence of an objective and quantifiable definition of the term subprime will undoubtedly cause a disparity in reporting, which may undermine the agencies' information gathering efforts and be prejudicial to some institutions.

Other comments to the proposal are as follow:

1. High Loan-to-Value Loans (Item 1 a) - The OTS' proposal to collect information on high LTV loans appears reasonable; however, the following clarifications are needed to ensure consistency with 12CFR 560.101.
   - Define LTV ratio as the original LTV ratio, with the exception of those principal balances that have been paid down below the 90 percent threshold ;
   - Specify if the LTV is based only on the original appraised value, or original appraised value or current appraised value, if available;
   - Reaffirm that, in accordance with 12 CFR 560.101, loans at or above 90 percent LTV insured by private mortgage insurance from a qualifying insurer are excluded from being reported as "high LTV loans";
   - We recommend that reporting of these loans be treated as confidential for a period of time sufficient to work out all of the reporting issues;
   - The proposal suggests an implementation date of March 2001, which may not give sufficient time to certain institutions to effect the required analysis to isolate and report the losses (charge-offs and specific valuation allowance provisions) associated with the high LTV loans;
   - Finally, we would like to suggest that, as an optional memo item, loans originated under special community lending programs be identified as such. While these are still exceptions to supervisory LTV limits, we believe that their identification is noteworthy.

1. Subprime Loans (Item 1 b) - As noted earlier, we urge the OTS to revisit its proposal, specifically, the definition of subprime. As proposed, the definition is too broad to ensure uniform application and reporting.

- If reporting is required, the schedule of subprime loans should be treated as confidential for a limited period to give institutions time to resolve reporting issues.
- In our judgment, the following factors may indicate a higher risk of default: delinquency history and prior foreclosure.
- The definition of subprime should not be identical for all types of assets. The risk associated with a low LTV subprime loan secured by real estate is significantly different from the risk associated with a subprime credit card account.
- If reporting is required, all institutions should be treated the same.
- The proposal should consider the exclusion of loans to first time homebuyers or originated under community lending programs, subprime loans with mortgage insurance and loans with a low loan to value.

1. Board of Directors' IRR Limits (Item 14)– We disagree with the proposal to report interest rate risk exposure limits established by the Board of Directors in the TFR. These limits are internal risk thresholds established based on the association's current condition, risk tolerance and strategic direction. Examiners review and evaluate the appropriateness of these limits during the examination, in conjunction with their evaluation of the institutions' interest rate risk exposure and asset-liability management strategies. Inasmuch as these limits do not change often, we believe that quarterly reporting of these limits will not improve regulatory offsite monitoring in a measurable manner. If reporting is required, however, the agency needs to be more specific as to how these limits will be measured and reported (percentage of change in net portfolio value or minimum NPV ratio, for example).

We appreciate your consideration of these comments.

Very truly yours,

Lillian E. Gavin
Executive Vice President
Director of Compliance
and Risk Management