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By Electronic Delivery

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
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Re: **OTS Docket No. 2007-0009**; "Savings and Loan Holding Company Rating System"; 72 Federal Register 17618, April 9, 2007.

Ladies and Gentlemen:

The Office of Thrift Supervision (OTS) proposes to amend its rating system for savings and loan holding companies (SLHCs) to more accurately reflect its risk management approach in the component descriptions and rating scale used to evaluate the condition of SLHCs. The current supervisory rating system evaluating capital, organizational structure, relationship, and earnings (CORE) would be amended by renaming relationship as risk management and focusing examination efforts into two main tracks – a financial evaluation of capital and earnings and an enterprise evaluation assessing risk management and organizational structure.

The American Bankers Association (ABA) appreciates the opportunity to comment on this proposal on behalf of the more than two million men and women who work in the nation's banks including savings associations. ABA brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership--which includes community, regional, and money center banks and holding companies, as well as savings associations, trust companies, savings banks, and bankers banks--makes ABA the largest banking trade association in the country.

ABA supports and encourages the OTS in its continual implementation of risk-based supervision. The OTS has the unique supervisory challenge of dealing with diverse and complex holding company structures. Historically, the OTS dealt with diversified holding companies by isolating the savings association and focusing its supervisory efforts on protecting the savings association from potential misuse by other entities in the holding company. While this approach may work for some SLHCs, there are others where many of the support or "back office" functions are performed by a variety of entities in the structure. For example, human resources and payroll services may be provided by a holding company parent to a subsidiary savings association. Indeed, the savings association may share offices, mail room and other functions with its parent and affiliates. In this environment, there is no separate building that supervisors can point to that truly represents the headquarters office of the savings association. There may be a floor, a section, or a group within the broader holding company staff that manage and operate the savings association. OTS's proposed SLHC rating system changes provide supervisory flexibility to evaluate and rate this type of SLHC and take a holistic approach to the entire entity.

ABA's specific comments and issues are as follows:

1. Use of the Five Point System.

The proposal implements a five point rating system with "one" being the highest rating and "five" representing the lowest. This changes the existing system of three ratings – above average, average and unsatisfactory. The change more closely conforms to the approaches and practices of the other banking regulators. ABA supports the rating change; however, we anticipate that this change will have little practical impact as any "three" rating will trigger some type of supervisory comment or action in the vast majority of situations. Any lower ratings will trigger increasingly severe supervisory actions. This means for the vast majority of SLHCs, they will continue to see only a limited range of ratings with a "three" being used to alert the SLHC that there is a problem that merits prompt attention. As is the practice currently, most SLHCs will continue to strive mightily to remain in the top two ratings.

2. The Holding Companies Handbook.

The proposal notes that the OTS "expects to conform existing guidance and regulations to incorporate any changes made to the SLHC rating system." 72 Fed. Reg. 17618, 17620 (April 9, 2007). ABA notes that many of the details of how the current rating system is used are contained in the Holding Companies Handbook (Handbook). As the Handbook still retains some of the historic approach to SLHC examination and supervision, it is likely that the Handbook will also need to be amended and updated.

Because it is difficult to anticipate these changes when commenting on the more abstract concept of the ratings, ABA encourages OTS to seek comment or some level of industry input on the revisions to the Handbook. To quote the adage, "the devil is in the details," the true measure of the rating changes will only be apparent when the Handbook revisions ("the details") are available. ABA offers its assistance in gathering industry input as part of the Handbook revision process.

3. Predictability.

ABA supports the flexible approach that OTS has taken to its supervision of SLHCs; however, there are words and concepts in the proposed rating system that provide little guidance, or more importantly, predictability for the SLHC attempting to qualify for one of the top ratings. For instance, what is "abundant" capital? How is "abundant" capital different from the Handbook's "financial resource to the entire corporation?" Is the current "one" rating standard of "financial resource to the entire corporation" now a "two" rating? How will an SLHC understand what "abundant" capital means in the context of its overall business? How does an auditor (or anyone else) opine as to "abundance?"

There are other questions. Does much of the organizational risk rating anticipate operational risk under the Basel framework? How does the capital and financial strength rating work in the Basel environment? How will the ratings be tailored to address non-complex SLHCs for which much of the rating component detail is not materially relevant?

In another area, OTS reserves great flexibility in its assignment of an overall composite rating for the SLHC. This works to address differences between types of SLHCs, but also leaves available the ability of the OTS to change the weights it gives the underlying component ratings from one exam to the next for the same SLHC. While there may be good supervisory reasons for this level of flexibility on a case-by-case basis, it undercuts the ability of the greater SLHC population to predict and comply with OTS's supervisory needs.

The point of raising these types of questions is to highlight the practical issues SLHCs face with implementation. For this reason, ABA encourages the OTS to find ways to make the examination process, including the ratings, more predictable as a means of encouraging and facilitating compliance.

4. Setting the Stage for Assessment and Exam Fee Increases?

No change in SLHC ratings or examinations can be made without addressing the likelihood of assessment and examination increases. Given the more holistic approach of the new ratings to evaluate the SLHC "entity-wide," it is also highly likely that the cost of examination and supervisory support will increase. Greater areas of review will require more examiners and supporting resources. Will the cost savings of deferring to primary regulators in the instances of insurance and brokerage, among others, work to offset some of these likely cost increases? ABA encourages the OTS to address the likelihood of additional costs as a result of the new supervisory approach and its continued deference to primary regulators in the final rulemaking.

5. Capital Requirements for SLHCs?

Current policy and Handbook provisions make it clear that no one capital requirement will work for all SLHCs. Because CORE ratings are the primary mechanism for establishing the appropriate capital requirement for a particular SLHC, it is important to understand how the new ratings will work in that process. If there is no intent to adjust current practice in this area, ABA encourages OTS to make that statement in the final rulemaking.

Conclusion

ABA supports the OTS's use of a risk-based supervisory process. The amended CORE ratings support that process; however, they are only one piece of the process. ABA encourages the OTS to continue to seek industry input as other pieces of the process are put in place. Thank you for considering our views, and if you have any questions or wish to discuss any of the issues raised, please do not hesitate to contact the undersigned.

Sincerely,

C. Dawn Causey