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

Attention: OTS-2007-0009

Ladies and Gentlemen:

Countrywide Financial Corporation ("Countrywide") appreciates this opportunity to comment on the April 9, 2007 Notice of Proposed Rulemaking ("NPR") published by the Office of Thrift Supervision ("OTS" or "agency"), which proposes changes to the agency's savings and loan holding company rating system. Countrywide supports and endorses the agency's decision to enhance, and better incorporate into its rating system, the risk-focused approach it employs in supervising saving and loan holding companies ("SLHCs").

Consistent with the spirit of the NPR, Countrywide encourages the agency's past and continuing evolution to a top-down, risk-based examination approach. In Countrywide's view, retrospective file reviews and detailed transaction testing are most useful when limited to situations where prior governance-based examination assessments have identified potential problems and issues. The agency's enhanced focus on risk management and the control environment will encourage SLHCs to seek systemic resolutions to matters brought to their attention during the examination process.

The following sets forth our comments on specific components of the rating system, referenced by topic:

#### **Adoption of Five-Point Numeric Scale**

Countrywide strongly supports the migration to a five-point numeric rating scale for component and composite SLHC ratings. We agree that the use of such a scale will permit better articulation of supervisory assessments as set out in the NPR.

### **Composite Rating**

The NPR states that the composite rating is the overall assessment of the holding company enterprise as reflected by its "organizational structure, risk management and consolidated financial strength." As a result, the OTS appears to have combined CORE's capital and earnings elements into one single measure of "consolidated financial strength." This reference could be interpreted as a shift in the overall weight the OTS places on these elements in determining a holding company's composite rating. To avoid misinterpretation, we recommend that the OTS further articulate its views on this matter, particularly whether it views capital and earnings as separate or interdependent measures for regulatory assessment purposes. At a minimum, we believe that the general description of the composite rating should be reworded to more closely track the new CORE components.

In its discussion of the "1" composite rating, the NPR states that "abundant" cash flow is required. The word "abundant" is also used in connection with the "1" capital rating. We do not believe that this word has a generally accepted meaning in the financial or supervisory literature. It would greatly assist SLHCs if the OTS were to define or further explain under what circumstances cash flow or capital would be determined to be "abundant."

Countrywide shares the OTS's concern that the current rating scheme can overemphasize the effect holding company operations have on the subsidiary thrift. The NPR appropriately proposes to eliminate these operations as a ratings criterion, while continuing to include consideration of their effect as part of the examinations process. Countrywide supports this approach as it would allow an SLHC, as part of its overall risk management strategy, to decide to accept more risk at the holding company level while maintaining strong capital and reserves at the subsidiary level.

### **Capital Adequacy**

The NPR states that the OTS does not apply a standardized capital requirement to SLHCs, but considers the consolidated entity on a case-by-case basis. In the NPR's discussion of the capital ratings component, the OTS states that an SLHC's capital adequacy will be determined by analyzing the consolidated capital position "from a regulatory perspective and an economic capital perspective, as appropriate to the holding company enterprise." The OTS should also articulate (a) the regulatory considerations *and* the economic capital considerations that the OTS intends to use in its determination of an SLHC's capital adequacy under the new rating system, and (b) how those considerations might differ. Moreover, the OTS should provide greater detail about how much emphasis will be put on regulatory considerations versus economic capital, and what characteristics in a given holding company enterprise will affect the relative weighting of those factors. We believe that the existence of an entity's economic capital program, which has been designed for the unique characteristics of each SLHC, should be the significant factor in rating a holding company's capital adequacy.

### **Organizational Structure**

The OTS is to be commended for its comprehensive list and discussion of the risks that it will evaluate in assessing an SLHC's organizational structure. The federal banking agencies, however, do not have a single, uniform list of such risks for the holding company or bank level. Inter-agency consensus on this issue would assist holding companies and banks in developing a consistent approach in identifying and monitoring their operations for these risks.

Advocating for a consensus list does not mean, though, that we endorse having all institutions adopt such a list. In our view, if an SLHC has independently identified the organizational risks it faces, and such lexicon of risks is sufficiently robust, the OTS should permit the SLHC to use its internally generated lexicon of risks.

Lastly, we believe that all or most of the enumerated risks are more properly evaluated as part of the risk management, rather than organizational structure, component. Such an approach also would be more consistent with the ratings systems adopted by other federal banking agencies.

### **Risk Management**

Countrywide strongly supports the adoption of the risk management elements identified in the NPR. We also support the agency's proposal to change the "R" component in the SLHC rating system from "relationship" to "risk management". These changes, taken together, would better reflect the agency's top-down emphasis on the identification, measurement, monitoring and control of risk at SLHCs.

As pointed out in the NPR, risk management programs at many SLHCs are highly integrated across business lines and legal entities. Some SLHCs include the subsidiary bank in their risk management program, while others have separate risk assessment regimes at the depository. The NPR does not indicate how the risk management rating assessment of the SLHC would be conducted if the enterprise were to include the subsidiary bank as part of its enterprise risk management program, an arrangement we believe should be strongly preferred for large, complex SLHCs. Clarification of this point would assist SLHCs in understanding how the OTS will apply the risk management component of the rating system.

### **Earnings**

We recommend that the OTS more clearly define the differences between capital and earnings for rating purposes. When it devised its new rating system, the OTS elected to retain capital and earnings as two separate and distinct CORE components, but did not maintain the capital and earnings rating definitions currently found in the OTS Holding Company Handbook. Countrywide supports maintaining capital and earnings as two separate rating components, but believes more definitional clarity would be helpful.

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Again, Countrywide wishes to thank the OTS for this opportunity to comment on these proposed changes to the SLHC rating system. We appreciate the care the OTS has taken to create an approach that will provide a thorough assessment and rating of each SLHC. If you have any questions or wish to discuss any of our comments, please contact me.

Very truly yours,

A handwritten signature in cursive script that reads "Walter Smiechewicz". The signature is written in black ink and is positioned above the printed name.

Walter Smiechewicz