



June 8, 2007

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20052

Attention: OTS-2007-0009

RE: Savings and Loan Holding Company Rating System, 72 FR 17618 (April 9, 2007)

Dear Sir or Madame:

America's Community Bankers ("ACB")¹ is pleased to comment on the proposal by the Office of Thrift Supervision ("OTS") to revise the savings and loan holding company ("SLHC") supervisory rating system.² The OTS proposal would update and refine the examination component descriptions and rating system used to evaluate the condition of SLHCs. In addition, the OTS proposal would reinforce its emphasis on risk management and shift its examination focus from the SLHC's effect on its subsidiary savings associations to the SLHC's overall financial condition, operations and risk profile.

ACB Position

ACB generally supports the OTS proposed revised rating system for SLHCs as a guide to the supervision of SLHCs. The proposed system is a detailed, comprehensive and risk-based examination program which the OTS intends to be flexible and applicable to all SLHCs. We strongly support the continuation of the OTS policy not to establish standardized capital requirements for SLHCs. Although we understand the proposed shift in emphasis away from the effect of the SLHC rating on its savings association subsidiaries to the consideration of the financial condition of the SLHC, we would strongly oppose changes to the OTS's overall approach to SLHC supervision. Finally, we believe that the OTS should clarify when examiners will implement the revised rating system, when and how the OTS Holding Companies Handbook ("Handbook") will be re-written to include the revised system, and how the revised system will interface with the remaining provisions concerning SLHC examination in the Handbook.

¹ America's Community Bankers is the national trade association committed to shaping the future of banking by being the innovative industry leader strengthening the competitive position of community banks. To learn more about ACB, visit www.ACB.us.

² 72 Fed Reg 17618 (April 9, 2007).

Discussion

The OTS has correctly recognized that the current rating system put into place almost 20 years ago needs revision. Some OTS-regulated organizations in a holding company structure have become more complex, often engage in a variety of financial activities, and may have significant international operations. The current rating system as set out in the Handbook is vague, lacks structure and does not consider in meaningful detail the elements of the varied strengths and weaknesses of SLHCs.

The SLHC examination and rating system was implemented in 1988 and is based on the assessment of four components: capital, organizational structure, relationship, and earnings. These components are referred to as the “CORE” components. Within the CORE framework, the OTS proposes to revise the current structure and focus on the SLHC’s financial condition, as measured by capital and earnings, activities and operations, and risk management practices. The proposal would change the “R” component from “Relationship” to “Risk Management.” This added emphasis on risk management is timely and appropriate.

In addition to the examination components, OTS examiners assign a composite rating to each of the CORE components. The current composite ratings consist of above average, satisfactory, or unsatisfactory. The proposed revised rating system would replace these categories with the five-point numeric scale that is used in the Uniform Financial Institution Ratings System and the OTS CAMELS rating system, whereby a “1” would represent the strongest SLHCs that are sound in almost every respect and a “5” would represent the weakest SLHCs that lack appropriate risk management or financial stability. The SLHC ratings would be applied on both a composite and component basis. ACB supports the proposal’s five-point scale, which is currently used by OTS to assign ratings to savings associations.

The proposed rating system would no longer base the supervisory rating of a SLHC on the potential impact the holding company may have on the subsidiary savings association. According to the proposal, the SLHC’s effect on its savings association subsidiaries will continue to be an important consideration in the examination process, but it will not be specifically addressed in the rating system. We believe this is appropriate.

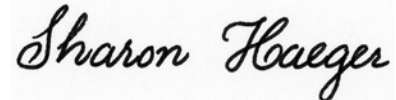
Capital is a key component of the SLHC rating system. We support the position in the preamble to the text of the proposed rating system that OTS will continue its current policy on the evaluation of SLHC capital and not impose standardized capital requirements. This is a distinct difference between the supervision of SLHCs by the OTS and the supervision of bank holding companies by the Federal Reserve Board of Governors. We strongly believe that this difference should be preserved. The OTS should continue to examine and evaluate SLHCs on a case-by-case basis, thus recognizing the diverse range of SLHCs from non-complex companies to large internationally active conglomerates. ACB strongly supports this case-by-case approach. ACB would strongly oppose changes to the overall OTS approach to the supervision of SLHCs. We believe that the OTS has all the appropriate authorities to ensure the safety and soundness of the institutions regulated by the agency.

Finally, we appreciate the publication by the OTS of the proposed SLHC rating system. This provides transparency and a guide for management to understand the components and the rating system used by examiners. The detailed and comprehensive proposed rating system when finalized will aid management in preparing for an examination as well as identifying and assessing the institution's strengths and weaknesses. We believe, however, that the OTS should include in its final release the date when examiners will implement the rating system, whether or not the Handbook will be revised and how the new rating system will interface with inconsistent provisions in the Handbook that focus on the protection of the safety and soundness of savings association subsidiaries.

Conclusion

ACB appreciates the opportunity to comment on the proposed revisions to the SLHC rating system. Should you have any questions, please do not hesitate to contact Patricia Milon at (202) 857-3121 or pmilon@acbankers.org or the undersigned at (202) 857-3186 or shaeger@acbankers.org.

Sincerely,

A handwritten signature in cursive script that reads "Sharon Haeger". The signature is written in black ink on a light-colored background.

Sharon A. Haeger
Regulatory Counsel