COMMERCIAL CAPITAL
BANK FSB

May 15, 2003

(6)

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

Re: Thrift Financial Report: Schedule CMR

Dear Sirs or Madams:

This letter is submitted on behalf of Commercial Capital Bank, FSB pursuant to a request for comment on the replacement of the consolidated maturity/rate schedule ("CMR") of the Thrift Financial Report with a new schedule to be known as Risk Exposure Data ("RED"). We appreciate the opportunity of being able to provide comment. As is our understanding, the Office of Thrift Supervision proposes the replacement of Schedule CMR as a means of improving its Net Portfolio Value ("NPV") model, which is the agency's key resource for measuring interest rate risk. The proposed Schedule RED will: (1) reduce data collection burden by changing the manner in which data is collected while at the same time increasing the flexibility of the NPV model; (2) address concerns raised by some institutions about shortcoming in the NPV model that are caused by the nature of data collected in the current CMR format; and (3) aid in calibrating the model and measuring credit quality through the collection of additional data.

From our perspective, the proposal would benefit from additional adjustments to information collected on "Adjustable-rate other real estate loans." Our concern with the NPV model, as expressed on numerous occasions with West Region personnel, relates to its valuation of multifamily/nonresidential mortgage loans. In effect, even before the application of any rate shock, the NPV model establishes a ***four-point discount to par*** for "significant unrecognized depreciation in the value" of multifamily/nonresidential portfolios.

As presented in the March 2000 *"Overview of the Net Portfolio Value Model,"* the NPV model estimates the current, or base case, economic value of each type of asset, liability, and off-balance sheet contract at the end of each quarter. These estimates are based on data reported by institutions on Schedule CMR, and on the term structure of interest rates prevailing at the end of the quarter. The model's valuations are derived from discounted cash flows and are dependent on the accuracy of both the cash flow estimates and the discount factors used in the analysis. West Region capital markets staff has

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acknowledged that the NPV model does not take into account loan structure characteristics such as rate floors, periodic and lifetime caps, and prepayment penalties embedded in these loan asset types. The CMR/RED Comparison Table suggests that bucketing will still not capture floor or periodic caps for multifamily loan assets, but will collect information on borrower credit rating and location.

Obviously, the lack of accurate cash flow estimates has impacted the valuation of multifamily/nonresidential loan assets. Additionally, the accuracy of discount rates applied by the OTS NPV model to cash flow estimates has been the subject of some discussion with OTS staff. Whereas the "*Overview*" indicates that "discount factors are formed using the discount rate that is the rate of return necessary to induce investors to hold a financial instrument," it appears that the OTS has little, if any, current market information available in determining the rate of return necessary to induce an investor to hold/purchase a financial instrument when it is in the form of a multifamily loan. We believe this lack of information results in discount rates applied to the cash flow of multifamily loan assets, which contributes to the pre-rate shock haircut for "significant unrecognized depreciation in value" of a multifamily/ nonresidential portfolio.

It has been the experience of our mortgage banking affiliate, a leading California originator of multifamily and nonresidential loan assets since April 1998, that willing, independent third-party investors consistently purchased (and continue to purchase) such assets from us at a price averaging over 101% of par over the past three years. That represents some $785 million in loans sold during the three-year period ending December 31, 2002. In other words, we consistently realize over a ***one-point premium to par***. When you consider the four-point discount to par derived by the OTS NPV model plus the in excess of one point premium that we experience, the result is a five-point error in base case pricing by the OTS NPV model.

Our 2003 exam report noted that the NPV model uses a "discount factor based on the value of the reported index, plus the median margin reported on Schedule CMR for all institutions reporting multi-family and nonresidential loans." Based upon our knowledge of typical indices and margins in the California market, it is difficult to reconcile a discount rate that would haircut these adjustable rate assets by four points in the base case scenario. Some correction to this aspect of the NPV model appears in order to achieve the enhancement or improvement sought through implementation of Schedule RED. Regional capital markets staff is very knowledgeable about the flaws in the NPV model's ability to value these types of assets, but are equally at a loss to explain how the discount factor is derived.

We believe these changes would be of particular benefit to those institutions engaged in the business of providing affordable housing through the origination of mortgage loans

made on the security of multifamily residential properties. Obviously, the OTS NPV model cannot be expected to accurately measure the interest rate risk exposure of every newly-created asset or liability, but this asset category constitutes $91.7 billion (multifamily and nonresidential mortgages) of the thrift industry's assets at December 31, 2002, and improved measurement or modeling capabilities within the OTS would seem to be a reasonable expectation. A few more buckets devoted to floors, caps, and prepayment penalties and a few less to credit rating and location would be welcome in the final schedule.

In closing, it should be pointed out that the OTS NPV model has been flawed in this regard for several years and we have communicated this shortcoming to our assigned caseload manager for several years. If the shoe were on the other foot, the OTS would expect an institution to be able to implement corrective measures to its own model in less than one exam cycle. The failure to do so would not only be reflected in a poor rating for "Sensitivity," but would be a reflection of the capabilities of Management.

Again, we thank you for the opportunity to comment on the proposal.

Sincerely,

Stephen H. Gordon
Chairman and Chief Executive Officer