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September 20,2004

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Re: Proposed Revisions to Bank Holding Company Rating System (Docket No. OP-1207)

Dear Ms. Johnson

Countrywide Financial Corporation appreciates the opportunity to share with the Board of Governors of the Federal Reserve System (the "Board") our views on the proposed revisions to the bank holding company (BHC) rating system as described in the Notice and Request for Comment published in the Federal Register at 69 Fed. Reg. 43996, July 23, 2004 (the "Notice and Request"). In concept, we agree with the shift toward the more forward-looking approach that is reflected in the Notice and Request. However, we believe that there are areas of the new BHC rating system which are problematic and should be clarified or modified. Moreover, we believe that additional fine-tuning of the rating system is necessary to ensure that the rating standards applicable to each component and subcomponent are described in a fashion which is consistent and parallel with other rating standards, and commensurate with the applicable rating.

General.

In a number of instances, the Notice and Request refers to the board of directors and senior management collectively, without regard for the fact that the respective roles of the board of directors and senior management in a bank holding company or any other corporation are quite different. The effectiveness of the board of directors and senior management should be evaluated in light of the differences in their respective roles and obligations. We recommend that the new rating system be revised to recognize the different functions and responsibilities of these separate corporate constituencies.

The Risk Management ("R") Component.

Five-Scale Rating for R Component Subcomponents. We believe that the subcomponents of the R component should be assessed using a five-scale rating regime consistent with that used in the composite rating, the R rating itself, and in evaluating other subcomponents. In our view, the proffered rationale that there is greater level of detail in the risk management subcomponents does not justify using a less graduated evaluative scale. As a practical matter, there will be an understandable reluctance to assign the highest rating under any ratings regime. The result is likely to be that, with a three-scale rating regime, the great majority of institutions will be given an "adequate" risk management subcomponent rating, which will neither serve regulatory objectives nor be fair to the companies regulated. Use of a five-scale rating regime may result in some holding companies rated in the three middle grades perceiving that they were treated less favorably than others similarly situated; however, this potential shortcoming is likely to be less acute as both the Board and banking organizations become more accustomed to the new rating system and with its practical application.

Articulation of Strong and Satisfactory Risk Management Rating. In order to receive a risk management rating of **2** or satisfactory, internal controls may display only modest weakness or deficiencies that are correctable in the ordinary course of business. The stringency of this standard will make it quite hard even to be assigned a **2,** or satisfactory, rating in this category, let alone a higher one. Moreover, it will be quite difficult to differentiate between the foregoing standard and the analogous standard applicable to the 1, or strong, rating, which is that the few noted exceptions to established policies and procedures are not material.

Internal Control Subcomponent. The description of the evaluation of internal controls should clarify whether references to the audit function refer to internal or external audit, or both. In addition, the description of the evaluation of internal controls as between the "strong assessment" and "acceptable assessment" categories is inconsistent; the former focuses on appropriateness for the type and level of risks of the organization's activities, the second focuses on "adequate coverage" of "major" risks and business areas. Similarly, there is no counterpart in the "acceptable assessment" category for the requirement in the "strong assessment" category that exceptions to reliable, accurate and timely reports are promptly investigated.

Competence of Board and Senior Management Subcomponent. In order to assign an organization a strong assessment under this subcomponent, the Notice and Request requires that the organization's overall business strategy be "effective". The guidelines do not state how the agency **is** to make this determination or what, if any, role market evaluation would have in assisting the agency in making it. In the absence of such guidelines, this determination seems overbroad and beyond the purview of the examiners to assess.

Policies, Procedures and Limits Subcomponent. There is no guidance as to the meaning of the term "limits" in the description of this subcomponent. We would recommend that the guidelines define and clarify the meaning of this term.

The "F" (Financial Condition) Component

Role of Market View. We are concerned that the articulation of the role of the market view reflected in the Notice and Request will of necessity have a penal effect on organizations where market perception and agency supervisory perception differ. Where the agency's view of the financial condition of the organization is more positive than the market's, the guidelines require review of the factors influencing the market's assessment and inclusion of those influences in their assessment of the financial condition of the organization. The result is likely to be that the agency view will be downgraded to be more consistent with the market view. Alternatively, where the market's view is more positive than that of the agency, "examinations staff should assess the effectiveness of the policies, procedures and controls around the BHC's public disclosures." Significantly, the guidelines do not indicate that if examinations staff should determine that those policies, procedures and controls are effective, the agency will moderate its view to be consistent with the market. The likely result of this is that any disparity between the agency's and the market's view will be resolved by adopting the less favorable of the two views.

In addition, the guidelines do not state where the "market view" may be found. Stock performance, ratings agencies and analysts all may be sources **of** the "market view", but each are subject to distortion. Some guidance to the examination staff in this area is, we submit, clearly necessary.

The "I" (Impact) Component

Initially, we have some concern that a separate component relating to the impact of nondepository entities on the subsidiary depository institution is unnecessary, as it is implicit in the composite rating of the depository institution by its primary federal regulator and the agency's composite rating of the holding company. However, in the event that an impact component is included in the final guidelines, we have the following comments.

The statement of the rating system provides that the "I" component analysis "will borrow heavily from the analysis conducted for the R and F components". This suggests that there will be possible duplication among these three components which, if not moderated, could have a distortive, multiplier effect on the composite rating.

Additionally, the statement of the rating system does not address whether and how the system will differentiate between functionally regulated nondepository holding company subsidiaries and those subsidiaries which are not functionally regulated. We believe, consistent with the Gramm-Leach-Bliley Act of 1999, that the statement should contain an affirmative statement that the Board will rely, except when permitted by law, upon examinations by, and reporting supplied to, such functional regulators.

The "D" (Depository Institutions) Component.

In this area, we question how examination staff would ever be able to justify any departure from the composite CAMELS rating assigned by the depository institution's principal federal regulator. If such departures from the CAMELS rating are contemplated, we would recommend that some thought be given to describing what factors or events could justify such a departure.

Again, we appreciate the opportunity to be able to comment on the proposed rating system reflected in the Notice and Request.

Sincerely,

Walter Smiechewicz

Walter Smiechewicz
Managing Director, **Risk** Assessment