October 24, 2012

Ms. Norah Barger
Board of Governors of the Federal Reserve System
20th Street & C Street, N.W.
Washington, D.C. 20551

Dear Ms. Barger:

Thanks very much for meeting with us in August. We found it to be a very interesting conversation on several fronts, including the Basel NPRs and proposed mortgage risk-weightings. We believe that the risk-weighting construct currently proposed, determined solely by LTV and certain product features, does not fully capture a loan's performance or risk.

Instead, we believe that a composite of underwriting criteria must also be considered when making credit decisions. As discussed, we are following up with data that demonstrates the important role that underwriting plays in mortgage performance. The data in the attached slide includes industry data pulled from the Loan Performance database and shows the relationship between defaults and FICO. Loan Performance is the industry's largest and most comprehensive database and includes loan-level data on more than $2.2 trillion in mortgage- and asset-backed securities.

The data in the chart includes all current first lien Fixed-Rate and ARM (Hybrid, IO, and Option) loans outstanding as of May 2008 ($678B) and tracks the default performance of those outstandings over a 24-month period. The resulting default data is then divided into two origination loan-to-value (OLTV) buckets.

Our key conclusion from the data is that FICO is a key component of predicting defaults and actually seems to be a better indicator of future default performance than OLTV. We would, therefore, urge the banking agencies to undertake a Quantitative Impact Study to help determine whether the proposed rules truly reflect the risk of the covered activities. Such a study could also provide a better understanding of the rules' potential impact on financial institutions and the economy.

Our understanding is that the agencies may be reluctant to use metrics such as FICO to help determine mortgage risk-weighting. We would note, however, that guidance regarding subprime lending programs points to the use of FICO as a key factor in determining appropriate risk management controls and capital necessary to support those programs. Furthermore, in its recent rulemaking on large bank assessment pricing, the FDIC defines high risk consumer loans according to probabilities of default. Thus, there is significant precedence in the use of meaningful underwriting factors in the determination of loan risk. We would urge, therefore, the agencies to consider carefully the use of important underwriting characteristics when developing the final mortgage risk-weight matrix.

Again, we appreciate your meeting with us. Please let me know if you have any questions or would like to see additional data.

Kind regards,

Regional Bank Group, Treasurers from the following institutions:

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