



**NAHB**  
NATIONAL ASSOCIATION  
OF HOME BUILDERS



## REGULATORY & HOUSING POLICY

**DAVID A. CROWE**  
Senior Staff Vice President

October 24, 2005

Mr. Steven F. Hanft  
Paperwork Clearance Officer  
Attention: Consolidated Reports of Condition and Income, 3064-0052  
Room MB-3064  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> St., NW  
Washington, DC 20429

Ms. Jennifer J. Johnson  
Secretary  
Attention: Consolidated Reports of Condition and Income, 7100-0036  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street & Constitution Avenue, NW  
Washington, DC 20551

Public Information Room  
Attention: 1557-0081  
Office of the Comptroller of the Currency  
Mail Stop 1-5  
250 E Street, SW  
Washington, DC 20219  
Attention: 1557-0081

**Re: Proposed Agency Information Collection Activities; Comment Request  
70 FR 49363 (August 23, 2005)**

Dear Sirs or Madams:

On behalf of the 220,000 member firms of the National Association of Home Builders (NAHB), I welcome the opportunity to respond to the request for comment, issued jointly by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (the Agencies) on proposed revisions (Proposal) to the Consolidated Reports of Condition and Income (Call Report). According to the Agencies, the Proposal is the result of an interagency review of the relevance of information that

is collected to fulfill the Agencies' supervisory responsibilities. NAHB also notes that the Proposal is an attempt by the Agencies to respond to concerns NAHB has raised in the past about the critical shortage of data regarding financial institution housing production financing activity and performance. NAHB endorses the Agencies' efforts to remedy this data vacuum, but we also suggest that further refinements to the Proposal would provide even more useful Call Report information.

### **Background**

Commercial banks file Call Reports with the Agencies each quarter for the Agencies' use in monitoring the condition, performance, and risk profile of reporting banks and the industry as a whole. Similarly, thrifts report their lending activity to the Office of Thrift Supervision (OTS) in the Thrift Financial Report (TFR). Call Reports and TFRs provide the most current statistical data available for identifying areas of focus for examinations, and for monetary and other public policy purposes. The Agencies periodically evaluate the form and content of the Call Report to ensure that there is an appropriate correlation between the Agencies' supervisory information needs and the information collected on the Call Reports. A commitment to minimize regulatory burden is also a factor in the Agencies' determination of whether to implement Call Report changes.

In the proposal, the Agencies have determined that collecting additional risk-focused data is necessary to augment their ability to assess whether an institution is experiencing changes in its risk profile that warrant immediate follow-up. One area in which the Agencies propose to collect additional risk-focused data is construction, land development, and other land (CLD&OL) lending. According to the Agencies, CLD&OL lending is a highly specialized activity with inherent risks that must be managed and controlled to ensure that these activities remain profitable. The Agencies note that the risk profiles, including loss rates, of CLD&OL loans vary across loan types. The Proposal is an attempt to improve the Agencies' ability to monitor the construction lending activities of individual banks and the industry as a whole. The Agencies propose to accomplish this by obtaining separate data on 1-4 family residential CLD&OL loans and all other CLD&OL loans.

### **NAHB Position**

NAHB frequently has called attention to the disparity in the area of land acquisition, development and construction loans between the Agencies' heightened level of concern regarding financial institutions' ability to manage risks associated with these loans and the lack of detailed data collected through the Call Report. NAHB believes that the Proposal is an excellent first step in increasing the level of transparency and disclosure of CLD&OL lending activity and performance. NAHB agrees with the Agencies that the substantial growth in this type of lending by banks makes paramount the need for separate data on residential CLD&OL loans and commercial CLD&OL loans.

NAHB is concerned, however, that the Proposal's delineation of the CLD&OL lending reporting requirements falls short in both structure and level of detail, and could potentially lead to ambiguous or less than meaningful results. To be sure, the additional data to be collected on 1-4 family residential CLD&OL loans will enable the Agencies and others to review, for the first time, the lending and performance data of this important market segment of the financial services sector. However, NAHB is concerned that the Agencies' Proposal to bifurcate the CLD&OL categories into 1-4 family residential loans and "other" CLD&OL loans will result in an unnecessarily confusing amalgamation of loans in the "other" category. NAHB believes this is problematic.

First, the bifurcation could cause observers, analysts and supervisors to incorrectly presume that the "other" category contains only nonresidential loans. This is not the case because CLD&OL loans for residential properties with 5 or more dwelling units (multifamily) would also be included in the "other" category. The Proposal would not support meaningful analysis of the commercial CLD&OL loan sector or comparison of commercial versus residential CLD&OL loan activity and performance.

In addition, comparisons between the CLD&OL loan activity and performance of commercial banks and savings associations is not possible. The TFR currently distinguishes between residential and nonresidential real estate loans and shows separate single-family and multifamily residential construction loan data. Without similar distinctions on the Call Report, it will be impossible to perform analyses on the CLD&OL practices of the depository institutions industry as a whole.

NAHB believes that multifamily production financing is distinct from commercial production financing, such as financing for shopping centers and office buildings. In fact our analysis of data reported in the OTS' TFR found that the performance of multifamily production loans routinely exceeds that of non-residential production loans by a considerable margin.

Given that real estate assets represent a growing and significant portion of commercial banks' loan portfolios, we believe that housing production loan activity and performance data should be reported with even more specificity than proposed, in order to accurately position such activities along the risk continuum in regulatory decisions. At a minimum, we urge the Agencies to revise the Call Reports to make them consistent with the TFR by collecting separate data for residential and nonresidential real estate loans by collecting separate data for the major types of loans within the residential category.

In particular, we ask the Agencies to consider modifying the Proposal to include the following revisions to Call Report Schedule RC-C – Loans and Lease Financing Receivables; Schedule RC-N – Past Due and Nonaccrual Loans, Leases and Other Assets; and Schedule RI-B – Charge-offs and Recoveries on Loans and Leases and Changes in Allowance for Loan and Lease Losses:

- Define residential construction and land development loans to include 1-4 family and multifamily (5 or more dwelling units) loans.
- Itemize data for 1-4 family and multifamily (5 or more dwelling units) within the residential construction loan category.

The Supplementary Information section of the Proposal provides a thorough description of the consideration the Agencies give to the impact of additional reporting requirements on a financial institution's regulatory burden. NAHB supports the Agencies' determination that the supervisory benefits of collecting 1-4 family housing production data offset the additional paperwork burdens for financial institutions. NAHB submits that adding a multifamily residential category to the CLD&OL reporting requirements would not alter that conclusion.

### **Conclusion**

NAHB appreciates the ongoing dialogue that we have had with the Agencies regarding the availability of housing production lending activity and performance data. We endorse the Agencies' Proposal to split CLD&OL data into separate categories for 1-4 family residential CLD&OL loans and all other CLD&OL loans. However, we believe that the modifications NAHB has outlined above would result in a much more useful level of comparative and supervisory data. Thank you for your consideration and we invite you to call on us if we can provide additional information.

Sincerely,



David A. Crowe  
Senior Staff Vice President  
Regulatory and Housing Policy