Audit Report

OIG-14-002

SAFETY AND SOUNDESS: In-Depth Review of Second Federal Savings and Loan Association of Chicago

October 28, 2013

Office of Inspector General

DEPARTMENT OF THE TREASURY

Contents

Abbreviations and Acronyms

ALLL	allowance for loan and lease losses
BSA	Bank Secrecy Act
CIP	Customer Identification Program
CRA	Community Reinvestment Act
CRP	capital restoration plan
FDIC	Federal Deposit Insurance Corporation
ITIN	individual taxpayer identification number
IRS	Internal Revenue Service
MRBA	matters requiring board attention
OCC	Office of Comptroller of the Currency
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
PCA	Prompt Corrective Action
SAR	suspicious activity report
SSN	social security number

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OIG

Audit Report

The Department of the Treasury
Office of Inspector General

October 28, 2013

Thomas J. Curry
Comptroller of the Currency

This report presents the results of our in-depth review of the failure of the Second Federal Savings and Loan Association of Chicago (Second Federal) located in Chicago, Illinois. The former Office of Thrift Supervision (OTS) regulated Second Federal until July 21, 2011, when the Office of the Comptroller of the Currency (OCC) assumed regulatory responsibility for federal savings associations pursuant to P.L. 111-203. OCC closed Second Federal and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 20, 2012. As of September 30, 2013, FDIC estimated the loss to the Deposit Insurance Fund[1] at $76.9 million.

Because the magnitude of the loss estimate was less than the threshold requiring a material loss review pursuant to section 38(k) of the Federal Deposit Insurance Act, we conducted a limited review of Second Federal that focused on the causes of the bank's failure, and issued a report in December 2012.[2] As a result of our limited review, we determined that an in-depth review of Second Federal's failure was warranted based on what we found to be an unusual circumstance – the nature of the bank's unsafe and

[1] Definitions of certain terms, which are underlined where first used in this report, are found in *Safety and Soundness: Material Loss Review Glossary*, OIG-11-065 (Apr. 11, 2011). That document is available on the Treasury Office of Inspector General's (OIG) website at http://www.treasury.gov/about/organizational-structure/ig/by-date-2011.aspx.
[2] OIG, *Safety and Soundness: Failed Bank Review of Second Federal Savings and Loan Association of Chicago*, OIG-13-028 (Dec. 20, 2012)

unsound lending practices particularly as it related to borrowers with individual taxpayer identification numbers (ITIN).[3]

As discussed in our December 2012 report, Second Federal's failure was primarily caused by losses associated with three types of high-risk loans: ITIN loans, stated-income residential loans, and stated-income commercial loans. Beginning in 2004, Second Federal originated and purchased a large volume of ITIN loans that resulted in a significant concentration of 402 percent of core capital plus allowance for loan and lease losses (ALLL) at December 2010. OTS examiners found that bank management's execution and oversight of this new and unproven lending strategy failed to adequately address the risks related to ITIN loans. Second Federal's board and management's lack of sufficient capital planning and effective credit risk management led to loan losses that depleted capital and ultimately caused Second Federal's failure.

The objectives of our in-depth review were to assess OCC's (1) supervisory guidance to banks and examiners on the types of high-risk lending that occurred at Second Federal, particularly ITIN loans, and (2) implementation of Prompt Corrective Action (PCA) under section 38. To accomplish our objectives, we reviewed the supervisory files and interviewed OCC examiners and officials. We also interviewed personnel at FDIC's Division of Depositor and Consumer Protection. Appendix 1 contains a more detailed description of our review objectives, scope, and methodology. Appendix 2 contains information on Second Federal's history and CAMELS ratings.

In brief, we determined that the OCC Comptroller's Handbook (Handbook) does not include guidance on the risks of ITIN lending and is outdated in other high-risk lending areas such as subprime

[3] The Internal Revenue Service (IRS) issues ITINs to help individuals comply with the U.S. tax laws, and to provide a means to process and account for tax returns and payments from those not eligible for social security numbers. ITINs are issued regardless of immigration status because both resident and nonresident aliens may have U.S. Federal tax filing and payment responsibilities under the Internal Revenue Code. (Source: IRS Publication 1915 (Rev. 1-2012), p. 6)

lending and nontraditional mortgages.[4] As discussed in appendix 2, we concluded OCC's supervisory actions under PCA were appropriate.

Due to the number of risks associated with ITIN lending, we recommend that the Comptroller of the Currency incorporate ITIN lending into its guidance as appropriate. The guidance should discuss the unique risks associated with ITIN lending, as well as bank management's responsibility to incorporate strong risk management policies and procedures around ITIN lending. OCC should also update its Handbook to incorporate the most recent interagency guidance on high risk lending products such as subprime and nontraditional loans.

Management Response In a written response, which is included as appendix 3, OCC stated it has updated its Concentration of Credit booklet of the Comptroller's Handbook series to reflect lessons learned from the crisis and to highlight the need for more granular assessments of credit concentrations of any type. While not explicitly mentioned, such concentrations would include ITIN loans. Additionally, OCC stated it is developing a new booklet that will focus on residential real estate loans that national banks and federal savings associations originate and underwrite to hold in their own portfolios, and will incorporate appropriate language about the risks posed by ITIN loans in this booklet.

OIG Comment We consider the action committed to by OCC as responsive to our recommendation. When we inquired about plans to incorporate the most recent interagency guidance on high risk lending products such as subprime and nontraditional loans into its guidance, OCC personnel stated that OCC is updating its Mortgage Banking booklet of the Comptroller's Handbook, which will include the interagency guidance on high-risk lending products. We also consider this action to be responsive to our recommendation.

[4] The term subprime refers to the credit characteristics of individual borrowers. Subprime borrowers typically have weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. Subprime loans are loans to borrowers displaying one or more of these characteristics at the time of origination or purchase.

Background

In 1996, IRS created the ITIN so that individuals who are not eligible to obtain social security numbers (SSNs) could obtain an identification number for income tax filing purposes. As discussed in a 1999 Treasury Inspector General for Tax Administration report, IRS made a policy decision to issue ITINs to illegal immigrants to enable them to pay taxes.[5] From 1996 to August 2012, IRS assigned 21 million ITINs. The latest 2010 and 2011 Census Bureau data indicates there are more than 50 million immigrants (legal and illegal) living in the U.S. An estimated 28 percent of all immigrants are in the country illegally.

The regulation that implemented Section 326 of the USA PATRIOT Act of 2001, Verification of Identification, allows banks to accept taxpayer identification numbers for non-U.S. persons as a form of identification, enabling banks to serve unbanked immigrants.[6] According to a 2010 academic study on mortgage lending and foreclosures in immigrant communities, beginning in the early 2000s, a growing number of banks offered ITIN loans. By 2005, at least 20 banks and credit unions, mostly in the Chicago and other Midwestern markets, offered such loans. By 2007, ITIN lending was occurring in roughly 40 states, and by 2008, immigrants had borrowed between $1 and $2 billion in ITIN mortgages.[7],[8] According to a 2011 FDIC survey of 567 banks, including large, midsize and small banks, 73 percent of the banks accepted ITINs to open accounts.

Although not classified as subprime or nontraditional loans, ITIN loans are risky because, among other reasons that are discussed below, some ITIN loan applicants may not undergo a traditional credit review as a result of their undocumented status. The

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[5] Treasury Inspector General for Tax Administration, *The Internal Revenue Service's Individual Taxpayer Identification Number Program Was not Implemented in Accordance with Internal Revenue Code Regulations*, Ref. No. 094505, Executive Summary, p. i (Sep. 28, 1999).
[6] 31 CFR § 1020.220
[7] Deyanira del Rio, "*Mortgage Lending and Foreclosures in Immigrant Communities: Expanding Fair Housing and Fair Lending Opportunity among Low income and Undocumented Immigrants,"* Kirwan Institute for the Study of Race and Ethnicity of the Ohio State University, p. 8, February 2010.
[8] The total amount of mortgage loans for 1-4 family homes from 2000 to the second quarter of 2008 was approximately $10 trillion.

potential for even greater risk exists when an ITIN loan is originated as a nontraditional mortgage loan.

OCC does not track ITIN lending, either by bank or in total volume. Although OCC was not able to provide us with specific data on current ITIN lending, officials and examiners we interviewed opined that ITIN lending by OCC-regulated banks had not increased since 2008 and may have decreased after 2009.

Compliance examiners may encounter ITIN lending during examinations to determine banks' compliance with (1) the Bank Secrecy Act (BSA)/Customer Identification Program (CIP),[9] (2) fair lending laws and regulations, and (3) the Community Reinvestment Act (CRA). BSA requires banks to file suspicious activity reports (SARs) if there are any suspicious activities during the opening of an account. In 2005, Second Federal entered into a Supervisory Agreement with OTS because of its noncompliance with BSA. Examiners found that the bank did not have a suspicious activity reporting process related to high-risk customers, including ITIN customers. OTS examiners did not find any violations of fair lending laws and regulations at Second Federal, and gave the bank a CRA examination rating of "outstanding" for its ITIN loan program targeted to unbanked immigrant families and for meeting its CRA obligations.

Results of Audit

The Comptroller's Handbook Does Not Include Guidance on ITIN Lending Risks and Needs to Be Updated to Reflect Current Interagency Guidance on High-Risk Mortgage Lending Products

The Handbook is comprised of booklets that cover specific topics related to banking, such as mortgage banking and retail lending. The Mortgage Banking booklet (1998) discusses the risks

[9] BSA requires financial institutions in the United States to assist U.S. government agencies to detect and prevent money laundering. BSA was amended by the USA PATRIOT Act of 2001 to require all financial institutions to have a written Customer Identification Program (CIP). CIP is intended to enable the bank to form a reasonable belief that it knows the true identify of each customer.

associated with, and includes examination procedures for the supervision of, mortgage banking. This booklet discusses nontraditional lending but does not reflect the most recent interagency guidance on nontraditional mortgage product risks issued in 2006.[10] This booklet is silent on both subprime and ITIN lending.

OCC's Retail Lending Examination Procedures booklet (2004) includes examination procedures for the supervision of all types of retail lending products and operations. This booklet discusses subprime lending and the interagency guidance on subprime lending issued in 2001; however, it does not reflect the most recent subprime lending interagency guidance issued in 2007.[11] Also, the booklet does not cover nontraditional loan products or the risks of ITIN lending.

When asked about specific guidance for ITIN lending, OCC officials and examiners confirmed that none exists at this time. We received different opinions about the need to incorporate new guidance. For example, one examiner stated that ITIN loans are classified as single-family mortgage lending, thus separate guidance for ITIN loans is not needed. Another comment we received was that no guidance is necessary for ITIN loans because OCC has enough guidance for high-risk loans and that an appropriate underwriting process for ITIN loans would be similar to the subprime loan review process that requires full verification of credit and income. Other OCC personnel we interviewed stated that ITIN lending guidance is needed. One OCC examiner stated that banks should have procedures and policies for ITINs in place to include extra steps in the underwriting process to reduce the potential for fraud. An OCC official told us that there should be guidance to define the types of documentation required to obtain an ITIN loan and to increase the credit verification process including more due diligence and requiring W-2s as proof of income.

While the former OTS was the regulator of Second Federal, its examiners identified significant risks related to ITIN lending and Second Federal's implementation of its ITIN loan program. These risks included (1) the bank's inability to conduct a traditional credit

[10] *Interagency Guidance on Nontraditional Mortgage Product Risks*, 71 FR 58609 (Oct. 4, 2006).
[11] *Statement on Subprime Mortgage Lending*, 72 FR 37569 (July 10, 2007).

review, (2) credit reports that raised uncertainty as to the true identity of the borrower, (3) the reduced job stability of borrowers without SSNs, and (4) the possibility of the government enacting stricter immigration laws or initiating stricter enforcement of existing laws.

With regard to credit reviews, banks may be unable to conduct a traditional credit review because of the undocumented status of the borrowers. Alternatively, banks may have to rely on other sources such as landlords, insurance agents, retail stores, and utility companies to verify credit history. The true identity of the ITIN borrower may be unknown because multiple forms of identification may have been used to gain employment or obtain credit in the past. According to a 2011 study by the Financial Crime Enforcement Network, most SARs related to identity theft in the sample reviewed described applicants who used invalid ITINs or SSNs on loan origination or modification documents.[12] Also, many undocumented workers cannot verify their income because they are paid in cash. Employers are reluctant to document the wages they pay to workers who are not authorized to work within the U.S.

ITIN lending concentration can present a unique risk, in that many ITIN borrowers may be in the same industry and/or geographical area, which may make the loan portfolio particularly susceptible to changes in the economy. Finally, according to a 2010 academic study on mortgage lending and foreclosures in immigrant communities, there is no secondary market[13] for ITIN loans.[14]

Due to the number of risks associated with ITIN lending and the potential for increased ITIN lending in the future as evidenced by the volume of ITINs issued by the IRS, we believe a discussion of ITIN lending in OCC guidance is warranted. We also believe OCC guidance should reflect the most current interagency guidance on high-risk lending.

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[12] Financial Crimes Enforcement Network, *Mortgage Loan Fraud Update: Suspicious Activity Report Filings In 2nd Quarter 2011*, ps. 13-14 (Sep. 2011).
[13] The market where mortgage loans and servicing rights are bought and sold between mortgage originators, mortgage aggregators (securitizers) and investors.
[14] Del Rio, "*Mortgage Lending and Foreclosures in Immigrant Communities: Expanding Fair Housing and Fair Lending Opportunity among Low income and Undocumented Immigrants,*" p. 9.

Recommendation

During our audit, we were informed that OCC is in the process of updating the Comptroller's Handbook. As part of the update, we recommend the Comptroller of the Currency incorporate ITIN lending guidance as appropriate. The guidance should discuss the unique risks associated with ITIN lending, as well as bank management's responsibility to incorporate strong risk management policies and procedures around ITIN lending. OCC should also update the Handbook to incorporate the most recent interagency guidance on high risk lending products such as subprime and nontraditional loans.

Management Response

OCC stated that it has updated its Concentration of Credit booklet of the *Comptroller's Handbook* series to reflect lessons learned from the crisis and to highlight the need for more granular assessments of credit concentrations of any type, and while not explicitly mentioned, such concentrations would include ITIN loans.

Additionally, OCC stated that given the heightened risks and complexity of residential lending products, it is developing a new booklet that will focus on residential real estate loans that national banks and federal savings associations originate and underwrite to hold in their own portfolios, and will incorporate appropriate language about the risks posed by ITIN loans in this booklet. OCC expects to complete the Handbook revisions by December 31, 2014.

OIG Comment

OCC's corrective action is responsive to our recommendation. When we inquired about plans to incorporate the most recent interagency guidance on high risk lending products such as subprime and nontraditional loans into its guidance, OCC personnel stated that OCC is updating its Mortgage Banking booklet of the Comptroller's Handbook, which will include the interagency guidance on high-risk lending products. We also consider this action to be responsive to our recommendation.

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We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-0384 or Theresa Cameron, Audit Manager, at (202) 927-1011. Major contributors to this report are listed in appendix 4.

Jeffrey Dye /s/
Director, Banking Audits

We performed an in-depth review of the failure of the Second Federal Savings and Loan Association of Chicago (Second Federal) located in Chicago, Illinois. Our objectives were to assess the Office of the Comptroller of the Currency's (OCC) (1) supervisory guidance to banks and examiners on the types of high-risk lending that occurred at Second Federal, particularly individual taxpayer identification number (ITIN) loans, and (2) implementation of Prompt Corrective Action (PCA) under section 38.

We conducted this in-depth review of Second Federal in response to Section 38(k) of the Federal Deposit Insurance Act.[15] This section provides that if the inspector general for the appropriate federal banking agency determines an in-depth review of a nonmaterial loss to the Deposit Insurance Fund is warranted, the inspector general is to prepare a report to the agency that

- reviews the agency's supervision of the institution, including its implementation of the prompt corrective actions (PCA) provisions of Section 38; and

- makes recommendations for preventing any such loss in the future.

To accomplish our objectives, we reviewed the supervisory files and interviewed OCC examiners and officials. In some cases, those interviewed were previous OTS employees who were involved with the bank's supervision prior to July 21, 2011, when OCC assumed regulatory responsibility for federal savings associations pursuant to P.L. 111-203. We also interviewed personnel at Federal Deposit Insurance Corporation's (FDIC) Division of Depositor and Consumer Protection. Specifically, we performed the following work:

- We determined the period covered by our review to be from 2004 through 2012.

- We reviewed OCC's and OTS' supervisory files and records for Second Federal from the 2004 through 2012 examination cycles. We analyzed examination reports, supporting work papers, and related supervisory and

[15] 12 U.S.C. § 1831o (k).

enforcement correspondence. We did not conduct an independent or detailed review of the external auditor's work or associated work papers.

- We reviewed the Comptroller's Handbook and various interagency guidance on high-risk lending areas.

- We interviewed and discussed various aspects of the supervision of the institution and regulatory guidance with OCC examiners and officials. We also interviewed FDIC officials regarding ITIN mortgage lending.

- We conducted research on current trends and statistics related to ITINs and ITIN lending.

- We assessed OCC's actions based on its internal guidance and the requirements of the Federal Deposit Insurance Act, as amended by 12 U.S.C. § 1820(d).

We conducted our fieldwork from November 2012 to June 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Second Federal Savings and Loan Association of Chicago History

Second Federal Savings and Loan Association of Chicago (Second Federal) of Chicago, Illinois, was established in 1923. Second Federal had its main headquarters in Chicago and additional branches in Cicero, Aurora, and Fox Lake, Illinois.

Historically, Second Federal was a conservatively managed institution extending residential mortgage loans within its surrounding communities funded by a stable core deposit base. In 2004, the bank changed its business plan to service the growing Hispanic immigrant population, targeting significant growth in individual taxpayer identification numbers (ITIN) loans. The growth in the ITIN portfolio outpaced management's aggressive business plan and by September 30, 2004, ITIN loans totaled $61 million or over 229 percent of capital and reserves. As a result of the economic downturn in 2007 and 2008, unemployment within the bank's customer base grew dramatically and many customers abandoned their properties and returned to their native countries. Second Federal also originated stated-income residential and commercial loans.

Despite examiners' repeated criticisms and enforcement actions, Second Federal’s board and management failed to correct or prevent unsafe or unsound practices and conditions. In 2004, an Office of Thrift Supervision (OTS) matters requiring board attention (MRBA) directed the board to (1) revise the strategic plan, (2) establish limits on ITIN loans, (3) ensure that the bank no longer made ITIN loans with loan-to-value (LTV) ratios of 90 percent or higher, (4) develop a plan to mitigate the risk of ITIN loans coming due in 5 years, (5) adjust the allowance for loan and lease losses (ALLL) balance and methodology, (6) evaluate the management structure, (7) address the general lack of oversight of operations, and (8) develop an effective internal audit function. A Supervisory Directive dated January 4, 2005, and a Supervisory Agreement dated May 11, 2005 (2005 Agreement), also required the board to correct all the ITIN lending deficiencies identified during the 2004 examination. While the board improved its oversight and communications and complied with most of the 2005 Agreement, the 2006 examination found that the board’s efforts to reduce the

ITIN loan concentration and bring the high-LTV loans into compliance had not been successful. By the 2007 examination, the bank was in compliance with the 2005 Agreement's provisions regarding limits on ITIN loans and loans with high LTV ratios, but not the provisions regarding senior management structure and oversight, and internal audit. In 2009, OTS formal enforcement actions required Second Federal to develop appropriate business and capital plans, immediately maintain capital ratios, and achieve and maintain higher capital ratios by March 31, 2010. The bank was unable to meet the required capital ratios after December 31, 2009, and the bank's declining asset quality and net losses caused capital ratios to continue to decline. A matter requiring attention from the OCC 2011 on-site review required the board to ensure compliance with the 2009 enforcement actions.

Although Second Federal had a CAMELS composite rating of 3 from 2004 through 2007, and a rating of 4 from 2008 through 2010, the bank was still well capitalized for PCA purposes as of December 2009, and adequately capitalized as of December 2010. Second Federal's PCA capital levels and efforts to obtain additional capital allowed the bank to remain open beyond 2010. On May 24, 2011, OTS notified the board that Second Federal's total risk-based capital ratio of 7.79 was within the thresholds for the undercapitalized category for PCA purposes and required the board to submit a capital restoration plan (CRP) by June 15, 2011.

On July 21, 2011, the supervision of Second Federal was transferred to OCC. The OCC's Special Supervision Division notified the board on July 26, 2011, that the bank was designated as significantly undercapitalized for PCA purposes due to its failure to submit an acceptable CRP within the allowed time and notified the board that the bank became critically undercapitalized on April 30, 2012. On July 20, 2012, OCC closed Second Federal and appointed the FDIC as receiver. As PCA requires federal banking agencies to take certain actions when an institution's capital drops below certain levels, we concluded that OCC's supervisory actions under PCA were appropriate.

Summary of OTS's Second Federal Examinations and Enforcement Actions

		Examination Results		
Date started/ Type of exam	**Assets (millions)**	**CAMELS rating**	**Number of MRBAs**	**Enforcement actions**
11/29/2004 Full-scope examination	$265.0	3/233221	12	Supervisory Directive issued 1/4/2005 Supervisory Agreement issued 5/11/2005
02/13/2006 [a] Full-scope examination	$269.0	3/233221	2	Formal Enforcement Action Waiver issued 6/6/2006
05/07/2007 [a] Full-scope examination	$258.8	3/223321	20	None
08/11/2008 [a] Full-scope examination	$252.1	4/344442	19	Troubled Condition Letter issued 9/9/2008 Cease & Desist Order effective 3/23/2009 Supervisory Directive issued 4/22/2009
10/13/2009 [b] Full-scope examination	$248.0	4/454544	11	Amended Cease and Desist Order effective 10/13/2009
02/28/2011 [b, c] Full-scope examination	$210.1	5/555544	14	None

[a] Second Federal remained under the May 11, 2005, Supervisory Agreement.
[b] Second Federal remained under the March 23, 2009, Cease and Desist Order.
[c] Examinations conducted by OTS. OCC did not conduct a full-scope examination of Second Federal; however, OCC notified the bank's board of directors in writing of the findings of its on-site review that began on November 21, 2011.

Source: OTS ROEs and enforcement actions; Second Federal's thrift financial reports.

Office of the Comptroller of the Currency

Washington, DC 20219

October 11, 2013

Mr. Jeffrey Dye
Director, Banking Audits
Office of Inspector General
Department of the Treasury
Washington, DC 20220

Subject: In-Depth Review of Second Federal Savings and Loan Association of Chicago

Dear Mr. Dye:

We have received and reviewed your draft report titled "In-Depth Review of Second Federal Savings and Loan Association of Chicago (Second Federal)." You conducted a limited review of Second Federal that focused on the causes of the bank's failure, and issued a report in December 2012. As a result of your limited review, you determined that an in-depth review was warranted based on the nature of the bank's unsafe and unsound lending practices, particularly as it related to borrowers with individual taxpayer identification numbers (ITIN). The objectives of the in-depth review were to assess OCC's (1) supervisory guidance to banks and examiners on the types of high-risk lending that occurred at Second Federal, particularly ITIN loans, and (2) implementation of Prompt Corrective Action (PCA) under section 38. To accomplish the objectives, you reviewed the supervisory files and interviewed OCC examiners and officials. You also interviewed personnel at FDIC's Division of Depositor and Consumer Protection.

Your report concluded that *the OCC's Comptroller's Handbook* (Handbook) does not include guidance on the risks of ITIN lending and is outdated in other high-risk lending areas such as subprime lending and nontraditional mortgages. You also concluded that OCC's supervisory actions under PCA were appropriate. The paragraphs below represent our response to your specific recommendations. During the audit, you acknowledge that OCC is in the process of updating *the Comptroller's Handbook*. As part of the update, you recommend the Comptroller of the Currency incorporate ITIN lending guidance as appropriate.

We believe the failure of Second Federal highlights the need for sound concentration risk management and residential real estate lending practices. The OCC has updated its Concentration of Credit booklet of *the Comptroller's Handbook* series to reflect lessons learned from the crisis and to highlight the need for more granular assessments of credit concentrations of any type. While not explicitly mentioned, such concentrations would include ITIN loans. Given the heightened risks and complexity of residential lending products, we are also developing a new booklet that will focus on residential real estate loans that national banks and federal savings associations originate and underwrite to hold in their own portfolios, and we will incorporate appropriate language about the risks posed by ITIN loans in this booklet. We should complete the Handbook by December 31, 2014.

Thank you for the opportunity to review and comment on your draft report. If you have questions or need additional information, please contact Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Bank Supervision, at 202-874-5020.

Sincerely,

Thomas J. Curry
Comptroller of the Currency

Theresa Cameron, Audit Manager
Dana Duvall, Audit Manager
Maria McLean, Auditor
Cecilia Howland, Referencer

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Performance Management
Office of the Deputy Chief Financial Officer, Risk and Control Group

Office of the Comptroller of the Currency

Comptroller of the Currency
Liaison Officer

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Committee on Finance

U.S. House of Representatives

Chairman and Ranking Member
Committee on Financial Services