

March 10, 2000

Anne E. Dewey, General Counsel
Office of General Counsel
Office of Federal Housing Enterprise Oversight
1700 G Street, N. W., 4th Floor
Washington, DC 20552

Dear Ms. Dewey:

Golden West Financial Corporation (“Golden West”) and its World Savings subsidiaries (“World”) appreciate this opportunity to comment on the Office of Federal Housing Enterprise Oversight’s (“OFHEO’s”) Proposed Rule No. RIN 2550-AA02, Risk-Based Capital. We commend you for the comprehensive and analytical proposal you have put forward. While we are anxious to review feedback from other interested parties and may have further comments once we have had an opportunity to review them, we have suggestions now concerning the recourse provisions of the Proposed Regulation.

There have been ongoing debates for many years about the value of using third party rating systems *versus* internal models to measure risk. In this letter, World is not speaking to this issue.

However, assuming that you do choose to use a third party system to measure the risk of recourse, then you should better reflect the minor differences between AAA, AA, and A ratings. Specifically, your proposed “haircuts” in Table 27 imply a risk difference between the ratings which is too high, particularly between AAA, AA and A. The definition for each rating by Moody’s and Standard & Poor’s shows very little difference in risk. You are doubling the risk haircut between AAA and AA and quadrupling the risk haircut between AAA and A, which is excessive, particularly for insured financial institutions. For example, should the haircut for an AA+ institution be twice that of an AAA- institution? A more accurate reflection of the risk would be cumulative haircuts for 120 months that were 5% for AAA, 10% for AA and 15% for A. Of course, lower rated institutions, particularly non investment grade, should require much more material haircuts.

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The second issue we would like to comment on is the proposal to substitute collateral pledged by the party providing recourse to the GSE in place of the incremental capital requirement for the GSE. We agree with this proposal. The recourse risk is covered whether the GSE puts up incremental capital or accepts qualified collateral. In fact, qualified collateral provides a stronger level of protection because in the event a loss must be paid, taking pledged collateral does not reduce the GSE's capital level. The forms of collateral that are acceptable are spelled out on page 18154 of the Federal Register/VOL.64, No. 70/Tuesday, April 13, 1999/Proposed Rules. Acceptable collateral includes "securities issued or guaranteed by...United States government-sponsored agencies...". Mortgage backed securities guaranteed by the United States government-sponsored agencies such as Fannie Mae and Freddie Mac should be included.

Very truly yours,

[signed: Herbert M. Sandler]

Herbert M. Sandler
Chairman of the Board and
Chief Executive Officer