Title: Risk Based Capital
    Capturing and Utilizing Aggregate Enterprise Amortized Original LTV Distribution Files

Approved By: <u>Armando Falcon, Jr.</u>   Date: <u>October 27, 2002</u>

I.   **PURPOSE:**

The aggregate Enterprise Amortized Original LTV (AOLTV) distribution is used to update the loan-to-value (LTV) ratio for loans underlying single and multi-class mortgage-backed securities (MBS) as detailed in section 3.7.2.3 of the risk-based capital (RBC) regulation. This process includes updating Table-3-59- Aggregate Enterprise Amortized Original LTV (AOLTV) Distribution on an annual basis.

II.   **Scope:**

The policy sets forth, in part, the process used to determine quarterly risk-based capital classifications.

The OFHEO Director may amend this guideline at his discretion.

III. **Authority And References:**

12 USC 4611
12 CFR Part 1750
Appendix A, section 3.7.2.3 and accompanying Table-3-59—Aggregate Enterprise Amortized Original LTV (AOLTV) Distribution.

IV. **Effective Date**:

This guideline is effective immediately upon approval by the OFHEO Director. An initial correction to the AOLTV table applies to the fourth quarter, 2002. Any future table revisions apply to the quarter following the revision.

V.   **Policy:**

The aggregate Enterprise Amortized Original LTV (AOLTV) distribution is used in the risk-based capital stress test to update the LTV for loans underlying single and multi-class MBS for which loan-level data are unavailable.

OFHEO will initially make a correction to the AOLTV table using data from the fourth quarter, 2001, which will be applied beginning with the fourth quarter, 2002 until further revision to the table is made.

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OFHEO will update the AOLTV table annually, using data from the RBC Report submissions for both Enterprises as of December 31st. The revised table is published on the OFHEO web site by March 15th each year and is used in the risk-based capital calculation for the next quarter.

After each revision, the new distribution is used in the stress test calculation for the following four quarters or until the next update. There is a one-quarter lag between the updating of Table 3-59 and its use in the risk-based capital stress test. For example, a new AOLTV distribution will be created using fourth quarter, 2002 data, which will be available March 15, 2003. That table will be used for RBC capital calculations for four quarters starting with the second quarter, 2003 through the first quarter, 2004. In case of a delay to the production of the updated AOLTV table, the OFHEO Director may make a determination to use different data (other than fourth quarter) or publish the revised table at a later time.

The Enterprises and the public may download the AOLTV distribution by the following steps listed below:

- http://www.ofheo.gov
- Click on Public Documents
- Click on Regulations
- Click on "to download Aggregate Enterprise Amortized Original LTV Distribution (AOLTV)"
- Under the heading AOLTV, click the link for the appropriate year
- Save

VI. Definitions:

The aggregate Enterprises Amortized Original LTV (AOLTV) distribution is used to update the loan-to-value (LTV) ratio for loans underlying single and multi-class backed securities for which loan-level data are unavailable.

VII. Responsibilities:

Office of Risk Analysis and Model Development (ORAMD) – defines parameters of the AOLTV table; supervises the creation of the AOLTV table and reviews the file containing the table for anomalies before the file is published; and sends the file to OER at least one business day before the table must be published.

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Office of Office Of Information Technology (OIT) – uses RBC Report data from both Enterprises for the fourth quarter to create the AOLTV table within 30 days after receiving the RBC Report data; and sends it to ORAMD for review.

Office of External Relations (OER) – publishes the revised AOLTV file each year on the OFHEO web site by March 15th.

VIII. Types of Records Created:

AOLTV table.