

requires this information to be compiled periodically and published by the agency in a form that will be helpful to the public, the law enforcement community, and Congress. As required by section 33112(c), this report provides information on theft and recovery of vehicles; rating rules and plans used by motor vehicle insurers to reduce premiums due to a reduction in motor vehicle thefts; and actions taken by insurers to assist in deterring thefts.

ADDRESSES: Interested persons may obtain a copy of this report and appendices by contacting the U.S. Department of Transportation, Docket Management, Room PL-401, 400 Seventh Street, SW., Washington, DC 20590. Docket hours are from 10 a.m. to 5 p.m. Requests should refer to Docket No. 2004-17217. This report and appendices may also be viewed on-line at: <http://www.nhtsa.dot.gov/cars/rules/theft>.

FOR FURTHER INFORMATION CONTACT: Ms. Rosalind Proctor, Office of International Vehicle, Fuel Economy and Consumer Standards, NHTSA, 400 Seventh Street, SW., Washington, DC 20590. Ms. Proctor's telephone number is (202) 366-0846. Her fax number is (202) 493-2290.

SUPPLEMENTARY INFORMATION: The Motor Vehicle Theft Law Enforcement Act of 1984 (Theft Act) was implemented to enhance detection and prosecution of motor vehicle theft (Pub. L. 98-547). The Theft Act added a new Title VI to the Motor Vehicle Information and Cost Savings Act, which required the Secretary of Transportation to issue a theft prevention standard for identifying major parts of certain high-theft lines of passenger cars. The Act also addressed several other actions to reduce motor vehicle theft, such as increased criminal penalties for those who traffic in stolen vehicles and parts, curtailment of the exportation of stolen motor vehicles and off-highway mobile equipment, establishment of penalties for dismantling vehicles for the purpose of trafficking in stolen parts, and development of ways to encourage decreases in premiums charged to consumers for motor vehicle theft insurance.

This notice announces publication by NHTSA of the annual insurer report on motor vehicle theft for the 2001 reporting year. Section 33112(h) of Title 49 of the U.S. Code, requires this information to be compiled periodically and published by the agency in a form that will be helpful to the public, the law enforcement community, and Congress. As required by section 33112(h), this report focuses on the

assessment of information on theft and recovery of motor vehicles, comprehensive insurance coverage and actions taken by insurers to reduce thefts for the 2001 reporting period.

Section 33112 of Title 49 requires subject insurers or designated agents to report annually to the agency on theft and recovery of vehicles, on rating rules and plans used by insurers to reduce premiums due to a reduction in motor vehicle thefts, and on actions taken by insurers to assist in deterring thefts. Rental and leasing companies also are required to provide annual theft reports to the agency. In accordance with 49 CFR Part 544.5, each insurer, rental and leasing company to which this regulation applies must submit a report annually not later than October 25, beginning with the calendar year for which they are required to report. The report would contain information for the calendar year three years previous to the year in which the report is filed. The report that was due by October 25, 2004 contains the required information for the 2001 calendar year. Interested persons may obtain a copy of individual insurer reports for CY 2001 by contacting the U.S. Department of Transportation, Docket Management, Room PL-401, 400 Seventh Street, SW., Washington, DC 20590. Docket hours are from 10 a.m. to 5 p.m. Requests should refer to Docket No. 2004-17217.

The annual insurer reports provided under section 33112 are intended to aid in implementing the Theft Act and fulfilling the Department's requirements to report to the public the results of the insurer reports. The first annual insurer report, referred to as the Section 612 Report on Motor Vehicle Theft, was prepared by the agency and issued in December 1987. The report included theft and recovery data by vehicle type, make, line, and model which were tabulated by insurance companies and rental and leasing companies. Comprehensive premium information for each of the reporting insurance companies was also included. This report, the seventeenth, discloses the same subject information and follows the same reporting format.

Issued on: March 30, 2007.

Stephen R. Kratzke,

Associate Administrator for Rulemaking.
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DEPARTMENT OF THE TREASURY

Office of Thrift Supervision

[No. OTS-2007-0009]

Savings and Loan Holding Company Rating System

AGENCY: Office of Thrift Supervision, Treasury (OTS).

ACTION: Notice and request for comment.

SUMMARY: Changes in the environment in which depository institutions and their holding companies operate have had a substantial impact on the way they are managed and necessitate changes in the way they are supervised. OTS supervises a diverse population of holding companies ranging from non-complex companies with limited activities to large, internationally active conglomerates that engage in a variety of activities. OTS has a well-established program for meeting its statutory responsibilities with respect to savings and loan holding companies (SLHCs or holding companies) and the thrift industry. Holding company supervision is an integral part of this oversight program, and OTS routinely takes steps to enhance its risk-focused supervision of holding companies.

While OTS has emphasized risk management in its supervisory processes for SLHCs of all sizes and complexities, this emphasis is not readily apparent in the primary components of the current SLHC supervisory rating system, CORE (Capital, Organizational Structure, Relationship, and Earnings). Therefore, OTS is considering making changes to the component descriptions and rating scale used to evaluate the condition of SLHCs. All SLHCs are assigned a rating, although the degree of supervisory scrutiny varies based on a risk-focused evaluation of their size, complexity, business activities, and risk exposures. OTS is committed to maintaining a common CORE component framework and a rating system that is flexible and applies to all SLHCs. After reviewing public comments, OTS intends to make any necessary changes to the proposal and adopt a final SLHC rating system.

DATES: Comments must be received by June 8, 2007.

ADDRESSES: You may submit comments, identified by OTS-2007-0009, by any of the following methods:

- Federal eRulemaking Portal: Go to <http://www.regulations.gov>, select "Office of Thrift Supervision" from the agency drop-down menu, then click submit. Select Docket ID "OTS-2007-0009" to submit or view public

comments and to view supporting and related materials for this notice of proposed rulemaking. The "User Tips" link at the top of the page provides information on using Regulations.gov, including instructions for submitting or viewing public comments, viewing other supporting and related materials, and viewing the docket after the close of the comment period.

- Mail: Regulation Comments, Chief Counsel's Office, Office of Thrift Supervision, 1700 G Street, NW., Washington, DC 20552, Attention: OTS-2007-0009.

- Hand Delivery/Courier: Guard's Desk, East Lobby Entrance, 1700 G Street, NW., from 9 a.m. to 4 p.m. on business days, Attention: Regulation Comments, Chief Counsel's Office, Attention: OTS-2007-0009.

Instructions: All submissions received must include the agency name and docket number for this rulemaking. All comments received will be entered into the docket and posted on Regulations.gov without change, including any personal information provided. Comments, including attachments and other supporting materials received are part of the public record and subject to public disclosure. Do not enclose any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

Viewing Comments Electronically: Go to <http://www.regulations.gov>, select "Office of Thrift Supervision" from the agency drop-down menu, then click "Submit." Select Docket ID "OTS-2007-0009" to view public comments for this notice of proposed rulemaking.

Viewing Comments On-Site: You may inspect comments at the Public Reading Room, 1700 G Street, NW., by appointment. To make an appointment for access, call (202) 906-5922, send an e-mail to public.info@ots.treas.gov, or send a facsimile transmission to (202) 906-6518. (Prior notice identifying the materials you will be requesting will assist us in serving you.) We schedule appointments on business days between 10 a.m. and 4 p.m. In most cases, appointments will be available the next business day following the date we receive a request.

FOR FURTHER INFORMATION CONTACT: Donna Deale, Director, Holding Companies and Affiliates, (202) 906-7488.

SUPPLEMENTARY INFORMATION:

The SLHC rating system is a management information and supervisory tool that systematically indicates the condition of SLHCs. It provides an evaluation of the SLHC's

condition for use by the supervisory community and focuses supervisory responses and actions. The SLHC rating system also provides a measurement tool to discuss the enterprise's condition with SLHC management. The current SLHC rating system was implemented in 1988. The rating system currently includes the following components:

Capital

The first component of a holding company examination is an evaluation of Capital. OTS does not apply a standardized capital requirement to SLHCs. Instead, OTS considers the overall risk profile of the consolidated entity on a case-by-case basis. This involves assessing analytical measures that include overall leverage, the level of short-term debt and liquidity, cash flow, reliance on thrift and other subsidiary earnings, interest coverage, quality of earnings, and level of consolidated tangible and equity capital. Individualized capital requirements can be used as a tool to achieve this goal when necessary.

Organizational Structure

The Organizational Structure component requires examiners to identify the organizational structure and ownership and assess any changes. OTS also reviews the activities of the holding company and other affiliates to determine regulatory compliance and to assess the risks these activities may pose to the thrift.

Relationship

In the Relationship component, examiners assess the interaction of the holding company's board of directors and executive management with the thrift. Examiners reach conclusions about:

- The materiality of the thrift to the holding company or its controlling shareholders;
- The degree of influence the holding company has over the thrift and how this influence affects the thrift's operations;
- Whether the board of directors provides adequate oversight for the holding company and its subsidiaries;
- How actively the holding company is involved in the management of the thrift;
- The degree of interdependence of the thrift and other entities within the holding company structure; and
- Whether the board has implemented effective policies and procedures to maintain separate corporate identities and avoid conflicts of interest.

Earnings

In the Earnings component, examiners assess the holding company's operations and financial condition and their current and prospective effect on the subsidiary thrift. OTS pays close attention to the holding company's earnings trends and capacity as well as cash flow. It also evaluates the relative contributions and dividend payout ratios of significant subsidiaries and the overall financial performance of the holding company enterprise.

You can find a thorough description along with examination procedures for each component in the OTS Holding Companies Handbook at <http://www.ots.treas.gov>.

After evaluating these four components, OTS assigns a composite SLHC rating using the following definitions:¹

Above Average (A): Holding company enterprises in this group have a wealth of financial strength. The enterprise could be called upon to provide financial or managerial resources to the thrift if circumstances dictate. Above Average holding company enterprises may exhibit minor weaknesses, but they are deemed to be correctable in the normal course of business. For this rating, all component ratings will generally be rated 1 or 2.

Satisfactory (S): Holding company enterprises in this group are those whose effect on the thrift is considered neutral. Overall, these holding companies exhibit financial conditions and operating performance that pose only a remote threat to the viability of the thrift. Satisfactory holding company enterprises generally do not possess the financial strength to be considered a substantial resource to the thrift. These companies may be reliant on the thrift for dividends or other sources of funds to service debt; however, their debt level and expected need for funds from the thrift are not considered overwhelming.

For this rating, the components should generally be rated 2, but may include components rated 1 or 3.

Unsatisfactory (U): This rating is reserved for holding company enterprises that impose a detrimental or burdensome effect on the thrift. Such companies exhibit high levels of various operating weaknesses that at best are considered less than satisfactory. There exists an inordinate reliance involving the thrift. Either the holding company is

¹ Component ratings are assigned to all complex SLHCs and may be assigned, at the examiner's discretion, to noncomplex SLHCs. When assigned, the four components are rated on a scale of one to three in descending order of performance quality. The definitions currently in use are set forth in the OTS Holding Companies Handbook.

inordinately reliant on the thrift for cash flow, or the thrift is inordinately reliant on the holding company for critical operating systems. Without immediate corrective action, the thrift's viability may be impaired. Enterprises deserving of this rating will predominantly have components that are rated 3, although even one component with a 3 rating may suffice to justify an overall U rating if the problems are severe enough. An Unsatisfactory rating is only given in the most severe circumstances. Such a rating would be comparable to a 4 or 5 composite thrift rating, and would carry the presumption that formal enforcement action is required, pursuant to RB 18-1b.

Since the introduction of this rating system, banking organizations and SLHCs have become more complex. Several SLHCs have significant international operations and many engage in multiple types of financial activities. In addition, certain SLHCs that existed prior to the enactment of activities restrictions in the Gramm-Leach-Bliley Act engage in commercial, manufacturing, and other retail activities. As of December 2006, SLHCs had aggregate consolidated assets of \$7.7 trillion. Because of SLHCs' diversity and OTS's risk focused holding company examination approach, the agency's approach to holding company examinations and ratings must document our assessment of the risk profile of the holding company enterprise as well as management's ability to identify, measure, monitor, and control risks.

Changes to Examination Components

This document proposes changes to two of the existing four examination components. OTS is proposing these changes to place greater emphasis on risk management. The number of components and OTS's risk focused examination approach would not change because of this proposal.

Using a slightly revised approach within the CORE framework, OTS will review two components that focus on financial condition (Capital and Earnings) and two other components (Organizational Structure and Risk Management) that focus on the activities and operations conducted within the enterprise and the SLHC's risk management practices.

With the exception of the ratings changes discussed later in this document, OTS is not proposing a change to its philosophy on evaluating the financial components (Capital and Earnings). OTS will continue to evaluate capital adequacy relative to a given enterprise's risk profile.

Within the Organizational Structure component, examiners would assess inherent risk in the context of lines of business, operations, affiliate relationships, concentrations, and other exposures. The most significant types of risk are defined in the proposed rating description for the Organizational Structure component. Based on its experience regulating holding companies and on a review of similar guidance by other banking and supervisory agencies, OTS compiled a comprehensive list of risks that holding company enterprises face.

OTS proposes changing the name of the "R" component from Relationship to Risk Management. Within the Risk Management component, examiners would evaluate corporate governance; board of directors and senior management oversight; policies, procedures, and limits; risk monitoring and management information systems; and internal controls. OTS recognizes that each SLHC must have the flexibility to tailor risk management programs to its size, complexity, and inherent risks. OTS also recognizes that its most complex holding companies are highly integrated and may manage risk on an enterprise-wide basis, both within and across business lines and legal entities.

Changes to Rating System

OTS believes that it should refine the current holding company supervisory approach and ratings system. An effective rating system must include an accurate assessment of each enterprise's financial and managerial condition. The rating system must be flexible and apply to holding companies of all sizes and complexity. The current rating scale does not facilitate meaningful distinctions in the strengths and weaknesses of an enterprise. Therefore, OTS is proposing the use of a five-point numeric scale similar to the Uniform Financial Institution Ratings System (UFIRS) and the OTS CAMELS rating system. The five-point scale would be used for both composite and component ratings assigned to SLHCs. The use of a five-point scale will better reflect issues of supervisory concern and will provide more distinction in the supervisory assessment of condition. A five-point scale also correlates with and is more comparable to the thrift and bank holding company rating systems.

OTS proposes to make one other change to the ratings definitions. Historically, OTS has based the rating of the holding company enterprise on its effect on its subsidiary thrift. OTS has encountered situations where it has supervisory concerns within the holding company enterprise, which did not have

a direct impact on the thrift. OTS believes that using the effect on the thrift subsidiary as a SLHC rating criterion can lead to misinterpretation of the rating. It also may not be as accurate in portraying the condition of the SLHC enterprise as ratings criteria based on financial condition, operations, and risk profile.

After thoroughly evaluating the language in the ratings definitions, OTS believes that language emphasizing the SLHC's effect on its thrift subsidiary limits the supervisory purpose of the rating. The SLHC's effect on its thrift subsidiary will continue to be an important consideration in the examination process, but the proposal does not include such language as rating criterion.

The proposed changes will elevate the prominence of risk management; better align holding company examination components with OTS's supervisory process; and provide a more accurate assessment of the condition of SLHCs. OTS recognizes that it bases certain guidance and administrative processes on the current SLHC rating scale and definitions. OTS anticipates that a rating of "4" or "5" will equate to an "unsatisfactory" rating for assessment and enforcement purposes. OTS expects to conform existing guidance and regulations to incorporate any changes made to the SLHC rating system.

Proposed Text of the Savings and Loan Holding Company Rating System

Holding Company Rating System

The holding company rating system is used to assess a holding company's Capital, Organizational Structure, Risk Management, and Earnings. Using this system, OTS comprehensively and uniformly evaluates all holding company enterprises, focusing supervisory attention on the holding company enterprises that are complex or exhibit financial and operational weaknesses or adverse trends. The rating system:

- Identifies problem or deteriorating holding company enterprises
- Categorizes holding company enterprises with deficiencies in particular areas
- Assesses the aggregate strength of the SLHC industry.

Each holding company enterprise receives a composite rating based on the evaluation factors.

Composite and component ratings are assigned based on a 1 to 5 numeric scale. A "1" rating is the highest rating, indicating the strongest performance and practices and least degree of supervisory concern. A "5" rating is the

lowest rating, indicating the weakest performance and the highest degree of supervisory concern.

Examiners will use the following descriptions to assign composite and component ratings to SLHCs.

Description of the Rating System Elements

Composite Rating

The composite rating is the overall assessment of the holding company enterprise as reflected by its organizational structure, risk management, and consolidated financial strength. The composite rating encompasses both a forward-looking and current assessment of the consolidated enterprise, as well as an assessment of the relationship between the companies in the enterprise. The composite rating is not a simple numeric average of the CORE components; rather, the composite rating reflects OTS's judgment of the relative importance of each component to the operation of the holding company enterprise. Some components may receive more weight than others depending on the SLHC's activities and risk profile. Assignment of a composite rating may incorporate any factor that significantly affects the overall condition of the holding company enterprise, although generally the composite rating is closely related to the component ratings assigned.

Composite 1. A holding company enterprise in this group is sound in almost every respect and generally has components rated 1 or 2. Any weaknesses are minor, and the board of directors and management can correct them in the normal course of business. The enterprise is able to withstand economic, financial, and risk exposure changes because of solid risk management practices and financial condition. Cash flow is abundant and adequately services debt and other obligations. This holding company enterprise exhibits strong performance and risk management practices relative to its size, complexity, and risk profile.

Composite 2. A holding company enterprise in this group is fundamentally sound but may have modest weaknesses. The board of directors and management are capable and willing to correct any weaknesses. Generally, no component rating should be more severe than 3 for this holding company enterprise. Risk management practices and financial condition create stability, and this holding company enterprise is capable of withstanding business fluctuations. Cash flow is adequate to service obligations. Overall,

risk management practices are satisfactory relative to the enterprise's size, complexity, and risk profile.

Composite 3. A holding company enterprise in this group raises some degree of supervisory concern in one or more of the component areas, with weaknesses that range from moderate to severe. The magnitude of the deficiencies is generally not severe enough to rate a component more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. This holding company enterprise is less resistant to adverse business conditions. Risk management practices may be less than satisfactory relative to the enterprise's size, complexity, and risk profile. However, there is only a remote threat to the holding company enterprise's continued viability.

Composite 4. A holding company enterprise in this group has serious financial or managerial deficiencies that result in unsatisfactory performance. The supervisory concerns, which management and the board are not satisfactorily addressing, range from severe to critically deficient. A holding company enterprise in this group is generally not capable of withstanding adverse business fluctuations. Risk management practices are generally unacceptable relative to the enterprise's size, complexity, and risk profile. The enterprise may place undue pressure on subsidiaries to meet its cash flow by upstreaming imprudent dividends or fees. Unless there is prompt action to correct these conditions, future viability could be impaired.

Composite 5. The magnitude and character of the risk management or financial weaknesses of a holding company enterprise in this category could lead to insolvency without immediate aid from shareholders or supervisory action. The volume and severity of problems are beyond the board and management's ability or willingness to control or correct. Risk management practices are inadequate relative to the enterprise's size, complexity, and risk profile. The inability to prevent liquidity or capital depletion places the holding company enterprise's continued viability in serious doubt.

Capital Adequacy (C) Component Rating

C reflects the adequacy of an enterprise's consolidated capital position, from a regulatory perspective and an economic capital perspective, as appropriate to the holding company enterprise. During OTS's review of capital adequacy, OTS will consider the

risk inherent in an enterprise's activities and the ability of capital to absorb unanticipated losses, support business activities including the level and composition of the parent company and subsidiaries' debt, and support business plans and strategies.

Capital Rating 1. A rating of 1 indicates that the consolidated holding company enterprise maintains an abundant amount of capital to support the volume and risk characteristics of its business lines and products; to provide a significant cushion to absorb unanticipated losses; and to fully support the level and composition of borrowing. In addition, the enterprise has abundant capital to support its business plans and strategies, it has the ability to enter capital markets to raise additional capital as necessary, and it has a strong capital allocation and planning process.

Capital Rating 2. A rating of 2 indicates that the consolidated holding company enterprise maintains adequate capital to support the volume and risk characteristics of its business lines and products; to provide a sufficient cushion to absorb unanticipated losses; and to support the level and composition of borrowing. In addition, the enterprise has sufficient capital to support its business plans and strategies, it has the ability to enter capital markets to raise additional capital when necessary, and it has a satisfactory capital allocation and planning process.

Capital Rating 3. A rating of 3 indicates that the consolidated holding company enterprise may not maintain sufficient capital to support the volume and risk characteristics of certain business lines and products; the unanticipated losses arising from the activities; or the level and composition of borrowing. In addition, the enterprise may not maintain a sufficient capital position to support its business plans and strategies, it may not have the ability to enter into capital markets to raise additional capital as necessary, or it may not have a sufficient capital allocation and planning process. The capital position of the consolidated holding company enterprise could quickly become inadequate if there is deterioration in operations.

Capital Rating 4. A rating of 4 indicates that the capital level of the consolidated holding company enterprise is significantly below the amount needed to ensure support for the volume and risk characteristics of certain business lines and products; the unanticipated losses arising from activities; and the level and composition of borrowing. In addition, the weaknesses in the capital position

prevent the enterprise from supporting its business plans and strategies, it may not have the ability to enter into capital markets to raise additional capital as necessary, or it has a weak capital allocation or planning process.

Capital Rating 5. A rating of 5 indicates that the level of capital of the consolidated holding company enterprise is critically deficient. Immediate assistance from shareholders or other external sources of financial support is required.

Organizational Structure (O) Component Rating

The O component is an assessment of the operations and risks in the holding company enterprise. In the O component, OTS evaluates the organizational structure, considering the lines of business, affiliate relationships, concentrations, exposures, and the overall risk inherent in the structure.

OTS's analysis under the O component considers existing as well as potential issues and risks. OTS pays particular attention to the following types of risk in assigning the O rating:

Type of risk	Description
Credit	Credit risk arises from the potential that a borrower or counterparty will fail to perform on an obligation.
Market	Market risk is the risk to a financial institution's condition resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates, or equity prices.
Liquidity	Liquidity risk is the potential that an institution will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding (funding liquidity risk) or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (market liquidity risk).

Type of risk	Description	Type of risk	Description
Operational	Operational risk arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. Transaction risk arises from problems with service or product delivery. This risk is a function of internal controls, information systems, employee integrity, and operating processes.	Contagion/Systemic.	Contagion entails the risk that financial difficulties encountered by a business line or subsidiary of a holding company could have an adverse impact on the financial stability of the enterprise and possibly even on the markets in which the constituent parts operate. Systemic risk is defined by financial system instability, potentially catastrophic, caused or exacerbated by idiosyncratic events or conditions in financial intermediaries. Impacted areas include: market value of positions, liquidity, credit-worthiness of counterparties and obligors, default rates, liquidations, risk premia, and valuation uncertainty.
Legal/Compliance.	Legal risk arises from the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations or condition of a banking organization. Compliance risk is the risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, or ethical standards.	Concentration	The exposure to losses due to a concentration (assets, liabilities, off-balance-sheet) at the subsidiary, business line, and/or enterprise level.
Reputation	Reputation risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.	Intra-Group Transactions.	Exposures to risk that result from transactions between affiliates.
Country/Sovereign.	Country risk arises from the general level of political, financial, and economic uncertainty in a country, which impacts the value of the country's bonds and equities. Sovereign risk is the risk that a central bank will impose foreign exchange regulations that will reduce or negate the value of foreign exchange contracts. It also refers to the risk of government default on a loan made to a country or guaranteed by it.	Strategic and Execution.	Strategic and execution risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. Strategic risk focuses on more than an analysis of the written strategic plan. It focuses on how plans, systems, and implementation affect the enterprise's franchise value. It also incorporates how management analyzes external factors that impact the strategic direction of the company.

Type of risk	Description
Insurance	
Pricing and Underwriting Risk.	The risk that pricing and underwriting practices are inadequate to provide for the risks assumed.
Reserving Risk	The risk that actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.

Organizational Structure Rating 1. A rating of 1 indicates that the organizational structure, including the nature and level of risk associated with the affiliates' activities, pose minimal concern. Management controls and monitors intra-group exposures. Any concerns posed by strategic plans, the control environment, concentrations, legal or reputational issues, or other types of risk within the enterprise are minor, and management and the board can address them in the normal course of business.

Organizational Structure Rating 2. A rating of 2 indicates that the organizational structure exhibits minor weaknesses, but the nature and level of risks associated with the holding company's activities are unlikely to be material concerns. Intra-group exposures, including servicing agreements, are generally acceptable, but isolated transactions or exposures may present limited cause for regulatory concern. Concerns posed by strategic plans, the control environment, concentrations, legal or reputational issues, or other types of risks within the enterprise are modest, and management

and the board can address them in the normal course of business.

Organizational Structure Rating 3. A rating of 3 indicates that there are organizational structure weaknesses that raise supervisory concern. The nature and level of risks associated with the holding company activities are moderately likely to cause concern. Intra-group exposures, including servicing agreements, have the potential to undermine the financial condition of other companies in the enterprise. Strategic growth plans, weaknesses in the control environment, concentrations, legal or reputational issues, or other types of risk within the enterprise are moderately likely to cause regulatory concern. The enterprise has one or more entities in the structure that could adversely affect the operation of other entities in the enterprise if management does not take corrective action.

Organizational Structure Rating 4. A rating of 4 indicates that there are weaknesses in the organizational structure of the enterprise, and/or the nature and level of risks associated with the holding company's activities are, or have a considerable likelihood of becoming, a cause for concern. Intra-group exposures, including servicing agreements, may also have the immediate potential to undermine the operations of companies in the enterprise. Strategic growth plans, weaknesses in the control environment, concentrations, legal or reputational issues, or other types of risk within the enterprise may be of considerable cause for regulatory concern. The weaknesses identified could seriously affect the operation of one or more companies in the enterprise.

Organizational Structure Rating 5. A rating of 5 indicates that there are substantial weaknesses in the organizational structure of the enterprise, and/or the nature and level of risks associated with the activities are, or pose a high likelihood of becoming, a significant concern. Strategic growth plans, a deficient control environment, concentrations, legal or reputational issues, or other types of risk within the enterprise may be of critical concern to one or more companies in the enterprise. The weaknesses identified seriously jeopardize the continued viability of one or more companies in the enterprise.

Risk Management (R) Component Rating

R represents OTS's evaluation of the ability of the directors and senior management, as appropriate for their respective positions, to identify, measure, monitor, and control risk. The R rating underscores the importance of the control environment, taking into consideration the complexity of the enterprise and the risk inherent in its activities.

The R rating includes an assessment of four areas: board and senior management oversight; policies, procedures, and limits; risk monitoring and management information systems; and internal controls. These areas are evaluated in the context of inherent risks as related to the size and complexity of the holding company's operations. They provide a consistent framework for evaluating risk management and the control environment. Moreover, a consistent review of these four areas provides a clear structure and basis for discussion of the R rating.

Risk management element	Description
Governance/Board and Senior Management Oversight.	This area evaluates the adequacy and effectiveness of board and senior management's understanding and management of risk inherent in the holding company enterprise's activities, as well as the general capabilities of management. It also considers management's ability to identify, understand, and control the risks within the holding company enterprise, to hire competent staff, and to respond to changes in risk profile or changes in the holding company's operating sectors.
Policies, Procedures, and Limits	This area evaluates the adequacy of policies, procedures, and limits given the risks inherent in the activities of the consolidated enterprise and its stated goals and objectives. OTS's analysis considers the adequacy of the enterprise's accounting and risk disclosure policies and procedures.
Risk Monitoring and Management Information Systems.	This area assesses the adequacy of risk measurement and monitoring, and the adequacy of the holding company's management reports and information systems. Include a review of the assumptions, data, and procedures used to measure risk and the consistency of these tools with the level of complexity of the enterprise's activities.
Internal Controls	This area evaluates the adequacy of internal controls and internal audit procedures, including the accuracy of financial reporting and disclosure and the strength and influence of the internal audit team. Include a review of the independence of control areas from management and the consistency of the scope coverage of the internal audit team with the complexity of the enterprise.

Risk Management Rating 1. A rating of 1 indicates that management effectively identifies and controls all major enterprise risks. Management is fully prepared to address risks emanating from new products and changing market conditions. The board and management are forward-looking and active participants in managing risk. Management ensures that appropriate policies and limits exist and that the board understands, reviews, and approves them. Policies and limits are supported by risk monitoring procedures, reports, and management information systems that provide management and the board with the information and analysis necessary to make timely and appropriate decisions in response to changing conditions. Risk management practices and the enterprise's infrastructure are flexible and highly responsive to changing industry practices and current regulatory guidance. Staff has sufficient expertise and depth to manage the risks assumed. Internal controls and audit procedures are sufficiently comprehensive and appropriate to the size and activities of the holding company. There are few noted exceptions to the enterprise's established policies and procedures, and none is material. Management effectively and accurately monitors and manages the enterprise consistent with applicable laws, regulations, and guidance, and in accordance with internal policies and procedures. Risk management processes are fully effective in identifying, monitoring, and controlling risks.

Risk Management Rating 2. A rating of 2 indicates that the enterprise's management of risk is largely effective, but exhibits some minor weaknesses. Management and the board demonstrate a responsiveness and ability to cope successfully with existing and foreseeable risks in the business plans. While the enterprise may have some minor risk management weaknesses, management and the board have recognized and are resolving these problems. Overall, board and senior management oversight, policies and limits, risk monitoring procedures, reports, and management information systems are satisfactory and effective. Risks are controlled and do not require additional supervisory attention. The holding company enterprise's risk management practices and infrastructure are satisfactory, and management makes appropriate adjustments in response to changing industry practices and current regulatory guidance. Staff expertise and

depth are generally appropriate to manage the risks assumed. Internal controls may display modest weaknesses or deficiencies, but they are correctable in the normal course of business. The examiner may have recommendations for improvement, but the weaknesses noted should not have a significant effect on the condition of the enterprise.

Risk Management Rating 3. A rating of 3 signifies that there are moderate deficiencies in risk management practices and, therefore, there is a cause for additional supervisory attention. One or more of the four elements of sound risk management is not acceptable, which precludes the enterprise from fully addressing one or more significant risks to its operations. Certain risk management practices need improvement to ensure that management and the board are able to identify, monitor, and control all significant risks. In addition, the risk management structure may need improvement in areas of significant business activity, or staff expertise may not be commensurate with the scope and complexity of business activities. Management's response to changing industry practices and regulatory guidance may not be sufficient. The internal control system may be lacking in some important aspects, leading to continued control exceptions or failure to adhere to written policies and procedures. The risk management weaknesses could have adverse effects if management does not take corrective action.

Risk Management Rating 4. A rating of 4 represents deficient risk management practices that fail to identify, monitor, and control significant risk exposures in material respects. There is a general lack of adequate guidance and supervision by management and the board. One or more of the four elements of sound risk management is deficient and requires immediate and concerted corrective action by the board and management. The enterprise may have serious identified weaknesses that require substantial improvement in internal control, accounting procedures, or adherence to laws, regulations, and supervisory guidance. The risk management deficiencies warrant a high degree of supervisory attention because, unless properly addressed, they could seriously affect the condition of the holding company enterprise.

Risk Management Rating 5. A rating of 5 indicates a critical absence of effective risk management practices in identifying, monitoring, or controlling significant risk exposures. One or more

of the four elements of sound risk management is wholly deficient, and management and the board have not demonstrated the capability to address these deficiencies. Internal controls are critically weak and could seriously jeopardize the continued viability of the enterprise. If not already evident, there is an immediate concern about the reliability of accounting records and regulatory reports and the potential for losses if corrective measures are not taken immediately. Deficiencies in the enterprise's risk management procedures and internal controls require immediate and close supervisory attention.

Earnings (E) Component Rating

E reflects the consolidated holding company enterprise's overall financial performance, including measures such as the quality of consolidated earnings, profitability, and liquidity. OTS's review of this area considers the level, trend, and sources of earnings on a consolidated level as well as for material legal entities or business lines. OTS also assesses the ability of earnings to augment capital and to provide ongoing support for an enterprise's activities.

Within this component, OTS also considers the liquidity of the enterprise. This rating reflects the consolidated holding company enterprise's ability to attract and maintain the sources of funds necessary to achieve financial efficiency, support operations, and meet obligations. OTS evaluates the funding conditions for each of the material legal entities in the holding company structure to determine if any weaknesses exist that could affect the funding profile of the consolidated enterprise.

Earnings Rating 1. A rating of 1 indicates that the consolidated holding company enterprise's overall financial performance is solid. The quantity and quality of earnings for material business lines and subsidiaries are sufficient to make full provision for the absorption of losses and/or accretion of capital in light of asset quality and business plan objectives. The enterprise has strong liquidity levels along with well-developed funds management practices. The parent company and subsidiaries have reliable and sufficient access to sources of funds on favorable terms to meet present and anticipated liquidity needs.

Earnings Rating 2. A rating of 2 indicates that the consolidated holding company enterprise's financial performance is adequate. The quantity and quality of the earnings for major business lines and subsidiaries are

generally adequate to make provision for the absorption of losses and/or accretion of capital in light of asset quality and business plan objectives. The enterprise maintains satisfactory liquidity levels and funds management practices. The parent company and subsidiaries have access to sufficient sources of funds on acceptable terms to meet present and anticipated liquidity needs. Modest weaknesses in funds management practices may be evident, but management and the board can correct those weaknesses in the normal course of business.

Earnings Rating 3. A rating of 3 indicates that the consolidated holding company enterprise's financial performance exhibits modest weaknesses. Major business line and subsidiary earnings are not fully adequate to make provisions for the absorption of losses and the accretion of capital in relation to the business plan objectives. The financial performance of this enterprise may reflect static or inconsistent earnings trends, chronically insufficient earnings, or less than satisfactory asset quality. This enterprise's liquidity levels or funds management practices may need improvement. The enterprise may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices at the parent company or subsidiary levels. However, these deficiencies are correctable in the normal course of business with sufficient board and management attention.

Earnings Rating 4. A rating of 4 indicates that the consolidated holding company enterprise's financial performance is weak. Major business line or subsidiary earnings are insufficient to provide for losses and the necessary accretion of capital. The enterprise may exhibit erratic fluctuations in net income, poor earnings (and the likelihood of a further downward trend), intermittent losses, chronically depressed earnings, or a substantial drop from previous performance. The liquidity levels or funds management practices of this holding company enterprise may be deficient. The enterprise may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs at the parent company or subsidiary levels.

Earnings Rating 5. A rating of 5 indicates that the consolidated holding company enterprise has poor financial performance and one or more business lines or subsidiaries are experiencing losses. Such losses, if not reversed, represent a distinct threat to the

enterprise's solvency through erosion of capital. In addition, the liquidity levels or funds management practices are critically deficient and may threaten continued viability. The enterprise requires immediate external financial assistance to meet maturing obligations or other liquidity needs.

Dated: April 3, 2007.
By the Office of Thrift Supervision.
Scott M. Polakoff,
Deputy Director & Chief Operating Officer.
[FR Doc. E7-6602 Filed 4-6-07; 8:45 am]

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DEPARTMENT OF VETERANS AFFAIRS

[OMB Control No. 2900-0222]

Proposed Information Collection Activity: Proposed Collection; Comment Request

AGENCY: National Cemetery Administration, Department of Veterans Affairs.

ACTION: Notice.

SUMMARY: The National Cemetery Administration (NCA), Department of Veterans Affairs (VA), is announcing an opportunity for public comment on the proposed collection of certain information by the agency. Under the Paperwork Reduction Act (PRA) of 1995, Federal agencies are required to publish notice in the **Federal Register** concerning each proposed collection of information, including each proposed extension of a currently approved collection for which approval has expired, and allow 60 days for public comment in response to the notice. This notice solicits comments on the information needed to obtain a government headstone or grave marker.

DATES: Written comments and recommendations on the proposed collection of information should be received on or before June 8, 2007.

ADDRESSES: Submit written comments on the collection of information through www.Regulations.gov; or to Mechelle Powell, National Cemetery Administration (40D), Department of Veterans Affairs, 810 Vermont Avenue, NW., Washington, DC 20420; or e-mail: mechelle.powell@va.gov. Please refer to "OMB Control No. 2900-0222" in any correspondence. During the comment period, comments may be viewed online through the Federal Docket Management System (FDMS) at www.Regulations.gov.

FOR FURTHER INFORMATION CONTACT:

Mechelle Powell at (202) 501-1960 or FAX (202) 273-9381.

SUPPLEMENTARY INFORMATION: Under the PRA of 1995 (Public Law 104-13; 44 U.S.C. 3501-21), Federal agencies must obtain approval from the Office of Management and Budget (OMB) for each collection of information they conduct or sponsor. This request for comment is being made pursuant to Section 3506(c)(2)(A) of the PRA.

With respect to the following collection of information, NCA invites comments on: (1) Whether the proposed collection of information is necessary for the proper performance of NCA's functions, including whether the information will have practical utility; (2) the accuracy of NCA's estimate of the burden of the proposed collection of information; (3) ways to enhance the quality, utility, and clarity of the information to be collected; and (4) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or the use of other forms of information technology.

Title: Application for Standard Government Headstone or Marker for Installation in a Private or State Veterans' Cemetery, VA Form 40-1330.

OMB Control Number: 2900-0222.

Type of Review: Extension of a currently approved collection.

Abstract: The next of kin or other responsible parties of deceased veterans complete VA Form 40-1330 to apply for Government provided headstones or markers for unmarked graves. VA uses the data collected to determine the veteran's eligibility for headstone or marker.

Affected Public: Individuals or Households.

Estimated Annual Burden: 83,500 hours.

Estimated Average Burden Per Respondent: 15 minutes.

Frequency of Response: On occasion.

Estimated Number of Respondents: 334,000.

Dated: March 29, 2007.

By direction of the Secretary.

Denise McLamb,

Program Analyst, Records Management Service.

[FR Doc. E7-6513 Filed 4-6-07; 8:45 am]

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