



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, D.C. 20429-9990

**Financial Institution Letter**  
**FIL-22-2005**  
**March 28, 2005**

## **Classification of Commercial Credit Exposures**

### **Notice for Public Comment on Interagency Proposal**

**Summary:** The Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision are requesting comment on the attached joint proposal to revise the classification system for commercial credit exposures. Comments are due by June 30, 2005.

**Distribution:**

FDIC-Supervised Banks (Commercial and Savings)

**Suggested Routing:**

Chief Executive Officer  
Compliance Officer  
Chief Lending Officer

**Related Topics:**

Revised Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts

**Attachment:**

*Federal Register* Notice: Interagency Proposal on the Classification of Commercial Credit Exposures

**Contact:**

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**Note:**

FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at [www.fdic.gov/news/news/financial/2005/index.html](http://www.fdic.gov/news/news/financial/2005/index.html).

To receive FILs electronically, please visit <http://www.fdic.gov/about/subscriptions/fil.html>.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, NW, Room 100, Washington, DC 20434 (1-877-275-3342 or 202-416-6940).

**Highlights:**

- The proposed classification system would be used by institutions and supervisors for the uniform classification of commercial and industrial loans, leases, receivables, mortgages, and other extensions of credit made for business purposes, based on an assessment of borrower creditworthiness and estimated loss severity.
- The proposal would replace the current commercial loan classification categories "special mention," "substandard" and "doubtful" with a two-dimensional-based framework built upon two distinct ratings:
  - Borrower rating – rates the borrower's capacity to meet financial obligations, and
  - Facility rating – rates a facility's estimated loss severity.
- As proposed, institutions may incorporate this framework into their internal risk rating systems or, alternatively, they may map their internal rating system into the supervisory framework.
- The FDIC encourages all institutions to review the attached *Federal Register* notice and to comment on their ability to implement the proposed classification system.