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E-mail: Comments@FDIC.gov
Subject: Docket Number OP-1227
Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW.
Washington, DC 20429

E-mail: regs.comments@federalreserve.gov
Subject: Docket Number OP-1227
Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Mr. Feldman and Ms. Johnson:

The South Dakota Division of Banking would like you to consider the following comments concerning the Interagency Proposal on the Classification of Commercial Credit Exposures. The Division does not believe it is appropriate at this time for the banking industry in South Dakota. It seems contrary to the efforts of regulatory agencies that are working diligently to reduce regulatory burden on the industry. Adoption of this proposal would be counter-productive to that effort, in particular for small- to medium-sized institutions.

The loan classification system now in use by state and federal regulatory agencies ("Substandard" – "Doubtful" – "Loss") has worked effectively for decades. Banks understand the system and have adopted extensive internal rating systems that comparably classify credits. Effective communication between the industry and examiners has been developed based upon this method for rating the quality of an institution's loan portfolio.

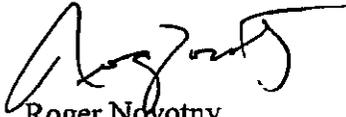
A change in the classification system would pose a burden on banks to establish new systems, new policies and procedures. In addition, the potential exists for significant costs in system upgrades, staff training, and other implementation considerations. Likewise, the regulatory agencies could face many of the same costs.

Since the new proposal would be effective for commercial credits only, current systems for other credits would need to be maintained going forward. Banks would need to

support two systems of credit review. Allowance methodologies would also require dual considerations for credit quality and loss probability assessment.

The federal regulators state that the current system considers the same factors incorporated in the new proposed classifications system. Therefore, we urge you to withdraw the proposal based upon the fact that a change in the method is not warranted, will prove costly, and will pose additional burden on the banking industry.

Sincerely,



Roger Novotny
Director
South Dakota Division of Banking

cc: CSBS
Members of the South Dakota Banking Commission