First Hawaiian Bank.
A BNP PARIBAS company

Albert M. Yamada
Vice Chairman and Chief Financial Officer
Finance and Administration Group

December 29, 2010

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: RIN 3064-AD66; Assessments, Large Bank Pricing NPR

Dear Mr. Feldman:

This letter is submitted in response to the notice of proposed rulemaking and request for comment regarding revisions to the assessment system applicable to large insured depository institutions published in the Federal Register on November 24, 2010 (the "Proposal").

First Hawaiian Bank ("FHB") appreciates this opportunity to comment on the Proposal and recommend changes to the Proposal. FHB understands the basic premise of the Proposal is to craft an assessment system that measures the risks that an insured depository institution ("IDI") poses to the deposit insurance fund ("Fund").

First Hawaiian Bank ("FHB") is a commercial bank headquartered in Honolulu, Hawaii, with $15 billion in assets. Founded in 1858, FHB is Hawaii's oldest and largest financial institution with 63 branches throughout Hawaii, Guam and Saipan. FHB has a very long history of serving the financial needs of these markets. We are a full-service bank providing personal, private and business banking services, merchant services, trust, insurance, wealth management and retirement planning.

FHB is ranked in the top tier as "well capitalized". The bank's Tier 1capital as of September 30, 2010 was $1.61 billion. In 2009, the bank earned the top rating (A+) from Institutional Risk Analytics, a national bank monitoring firm. The rating is the highest possible rating from that firm, and is awarded to only a small percentage of banks that exhibit strong metrics in profitability, credit quality, capital strength, and operational efficiency. Our capital ratios as of September 30, 2010 were:

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	September 30, 2010	Minimum*
Tier 1 Risk-Based Capital Ratio	18.20%	6.00%
Total Risk-Based Capital Ratio	19.51%	10.00%
Leverage Ratio	11.70%	5.00%

**Minimum ratio for a "well capitalized" bank for FDIC insurance purposes.*

FHB agrees conceptually with the Proposal's objective of differentiating deposit insurance assessment rates based on institutions' risk profiles. However, we believe that clarification and changes are preferable with respect to the three items listed below:

Higher-Risk Assets
Criticized and Classified Items
Inclusion of Goodwill in Asset Base

The proposed assessment base of average consolidated total assets minus average tangible equity is statutory but Congress has vested the FDIC with the task of implementing the statutory formula through regulation. Of necessity, this requires the exercise of the discretion of the FDIC in further refining the statutory formula. FHB believes that categorization of Higher-Risk Assets, inclusion of goodwill as an asset but not as capital, and the definitions within Criticized and Classified Items should be addressed and amended. Otherwise, the Proposal, if finalized as proposed would unfairly penalize institutions such as ours with higher levels of intangible assets and does not adequately distinguish the level of risk inherent in institutions' balance sheets.

FHB also believes that the Proposal should be consistent with prior FDIC or interagency guidance that has been issued to date; otherwise, IDIs would be penalized for adhering to existing regulatory guidance.

Higher-Risk Assets

The Proposal defines higher-risk assets to include construction and land development loans, leveraged loans, nontraditional mortgages and subprime consumer loans. While construction and land development loans are defined and reported in the Call Report, the Proposal's definitions of leveraged loans, nontraditional mortgages and subprime consumer loans appear to be overly broad and conflict with existing regulatory guidances. In certain cases, the determination of amounts as defined, as well as ongoing tracking, will be an onerous burden and creates significant operational and systems challenges for FHB.

Leveraged Loans

Leveraged loans are defined in the Proposal to include loans or securities where (1) proceeds are used for buyout, acquisition, and recapitalization; (2) the borrower's balance sheet leverage ratio or operating leverage ratio exceeds specified thresholds; or (3) the syndication agent has designated the transaction as a highly leveraged transaction. The Proposal further requires inclusion of loans that may not have been considered leveraged at the time of origination but subsequently meet the prescribed characteristics.

Specific concerns with these provisions are as follows:

Buyout, Acquisition, and Recapitalization Loans

The blanket inclusion of all loans used for buyout, acquisition or recapitalization would not present an accurate assessment of risks posed to the Fund by such loans because it ignores the current financial condition of the borrower. Furthermore, the amount of equity invested by the borrower in the specific transaction could be substantial, thereby significantly reducing the risk. Looking solely at the purpose of the loan, without considering the financial strength of the borrower, or other credit enhancements (including collateral) will overstate the risk of the loan. By defining leveraged loans to include all loans used for buyout, acquisition or recapitalization is to conclude ipso facto that all such loans are high-risk. We do not agree with that conclusion so we recommend that the definition be refined to include under this category only buyout, acquisition, and recapitalization loans that actually involve a highly leveraged borrower as defined as we propose in the next section. .

Balance Sheet Leverage Ratios and Operating Leverage Ratios

- The establishment of standardized thresholds for balance sheet leverage and operating leverage ratios conflicts with the FDIC's Risk Management Manual of Examination Policies which recognizes that leverage standards may vary by industry. Adherence to an one-size-fits all ratio not only contradicts the axiom of the Risk Management Manual of Examination Policies that correctly recognizes that leverage ratios differ from industry to industry, it might lead to the unintended consequence of adversely impacting the availability of credit or the cost of credit to companies operating in traditionally higher-leverage, without regard to the true creditworthiness of the borrower and concomitant risk to the Fund. However we measure the viability of a company/borrower, using one standard measure does not accurately measure the viability or risk of such company and accordingly, we urge the FDIC to use the FDIC Risk Management Manual of Examination Policies to determine applicable leverage standards which would characterize the ratio level which would be sufficiently high to warrant inclusion as a leveraged loan.

- While leverage ratios are considered in loan underwriting, FHB does not currently compile statistics on our commercial borrowers. We believe that leverage ratios are a better measurement of risk in the context of larger loans and national credits but not in the context of loans to small businesses. Because small businesses generally have higher leverage ratios, the emphasis on leverage ratios leads to the unwanted consequence that almost all loans to small businesses are included as a higher risk asset. It is more realistic to treat the risk of a small business loan similar to the risk of a consumer loan because the underwriting is similar: credit scores, payment history, ability to repay the loan, and credit enhancements.

- The flaw of using leverage ratios for all business loans is supported by industry statistics compiled by the Risk Management Association (RMA). It appears that a majority of commercial borrowers would have balance sheet leverage ratios exceeding the Proposal's 50 percent threshold, when in fact the higher levels of leverage may be normal for the particular industry and within acceptable credit risk parameters for loan underwriting. The statistics also reflect the fact that small and medium-sized businesses generally have higher balance sheet leverage than a large corporation. Similarly, the operating leverage ratios of total debt/EBITDA and senior debt/EBIDTA of 4.0X and 3.0X, respectively, may not necessarily be indicative of a higher-risk credit, particularly when other credit enhancements such as guarantees or collateral are present. Generally, in our underwriting for loans other than large corporate loans, we use total liabilities-to-net worth ratio instead of total liabilities-to-total assets ratio. Only with the large corporate loans do we use a debt/EBIDTA ratio.

As written, the Proposal may result in a large number of acceptable-risk commercial borrowers being included in the higher-risk category, which may have the unintended consequence of a reduction in credit available to businesses, especially to small/medium-sized businesses which exhibit higher leverage, or lead to higher interest rates and fees for these borrowers, both of which would have harmful consequences on the economy as well. Such an unintended consequence would be especially unwelcome at a time when our government policy is to support loans to small businesses as evidenced by the Small Business Lending Fund and the State Small Business Credit Initiative, two provisions in the Small Business Jobs Act of 2010, signed into law by President Obama on September 27, 2010. Another example of government concern on small business lending is the FDIC's recent announcement it is hosting a forum on January 13, 2011 to examine obstacles to small business lending. IDIs like FHB that understand the importance of supporting lending to local small and middle-market businesses while maintaining sound credit discipline should not be penalized through higher assessments merely by virtue of the establishment of arbitrary thresholds.

A small business loan is defined in the Call Report as a loan one million dollars or less. Although, our asset size places us into the large bank category, in reality because of our location in a relatively lightly populated state, we are more akin to a community bank serving the needs of our local community, which in the business community is generally small to medium sized businesses. This premise is supported by the fact that over 95% of our C&I loans (based on number of loans) were to small businesses. For IDIs, like FHB, that are located in a smaller community, it is almost axiomatic that almost all of the population of commercial loans will be leveraged loans under the Proposal because the businesses in our communities are small/medium sized businesses which have the higher leverage ratios. Thus, the Proposal penalizes banks that service the credit needs of the small business community. IDIs which are based in and serve the needs of a smaller community and whose commercial loan portfolio bears characteristics more common to a community bank should be regarded and assessed more as a community bank that a large interconnected bank, and thus, we recommend that loans to small businesses not be deemed to be a leveraged loan.

We recommend such exclusion from the classification of leveraged loans to avoid creating a disincentive for that category of loans. The emphasis on leverage ratios would be appropriate for larger credits and national credits when such ratios are a critical part of underwriting, and we do not object to including such loans larger credits or national credits as a higher risk asset when the leverage ratio warrants but we do object to including loans to small business loans as a higher risk asset when such loan is underwritten more akin to a consumer loan.

- The Proposal does not take into account credit enhancements which can significantly minimize risk, such as collateral in the form of cash or marketable securities, or financially strong guarantors. When we underwrite a loan, we consider a multitude of factors in order to assess the credit-worthiness of the borrower and the structure of each separate lending transaction. Utilization of a single measure such as leverage ratio does not fairly reflect the degree of risk inherent in a specific transaction and can lead to inaccurate higher-risk asset determinations. Accordingly, an IDI with loans that are supported by credit enhancements should be permitted to exclude such loans from this category of leveraged loans.

- The Proposal provides for the inclusion of loans subsequent to origination, but does not provide for the subsequent exclusion of loans that no longer meet the criteria. Inclusion of loans which no longer meet the leverage ratio thresholds would result in misleading view of the volume of higher-risk assets and is not fair to the IDI that experiences improvement and consequently poses less risk to the Fund. The Proposal should be revised to allow for the removal of loans that no longer possess the higher-risk attributes.

- The Proposal in its present form would be onerous on FHB. Operating procedural changes and system modifications would be required to capture leverage information in order to identify the subject loans and quantify exposures in an efficient and timely manner. Since the assessment of high-risk is not made only at origination, but from unspecified time to unspecified time throughout the life of the loan, in essence, this proposal would require FHB to conduct mini-underwriting procedures throughout the life of each commercial loan. Further, because this information is not currently captured on our loan application, implementation would require review and input of required data for all commercial loans, an onerous and time-consuming process.

- We request that the Final Rule provide guidance to IDIs regarding the monitoring standards to be imposed. Will there be specific requirements as to the acceptable basis for the determination, such as establishing a requirement for annual audited financial statements? Will there be specific requirements as to the acceptable frequency of update? If the bank has not received updated financial statements, will a loan automatically be treated as leveraged?

- In summary, FHB proposes that the definition of leveraged loans be refined to exclude loans to small businesses and loans supported by credit enhancements, and thus, the higher risk assets would include only those that truly can pose a risk to the Fund. Further, a loan which is no longer "high risk" should not be considered a high risk asset. We also recommend that only a buyout, acquisition, and recapitalization loan that involves a highly leveraged borrower be included as a higher risk asset.

Nontraditional Mortgage Loans

The Proposal defines nontraditional mortgage loans to include "all residential loan products that allow the borrower to defer repayment of principal or interest and includes all interest-only products, teaser rate mortgages, and negative amortizing mortgages, with the exception of home equity lines of credit (HELOCs) or reverse mortgages." This proposal is a significant departure from the Interagency Guidance on Nontraditional Mortgage Product Risks dated October 14, 2006 ("Interagency Guidance") because it includes teaser rate mortgages as a nontraditional mortgage but the Interagency Guidance does not. Since the issuance of the foregoing Interagency Guidance, prudent lenders have used the Interagency Guidance to guide their lending practice on nontraditional mortgages (whether to avoid originating them or to originate them in a prudent fashion), which is precisely what a guidance should accomplish. To suddenly expand the definition for a nontraditional mortgage to include teaser mortgages for deposit assessment purposes is unfair to IDI's who, in good faith, used the Interagency Guidance as a roadmap to prudent lending. The inclusion of teaser rate mortgages as a nontraditional mortgage raises questions such as: would any below-market pricing qualify as a teaser rate? Would traditional adjustable-rate mortgages which include a teaser introductory rate, but which will fully amortize over the stated loan term and was underwritten at the fully-indexed rate, fall within this definition? The Interagency Guidance does distinguish between "traditional ARMs" and higher-risk products such as payment option ARMs. The Interagency Guidance also specifically excludes fully amortizing residential mortgage loan products. To prevent overstatement of the higher-risk asset measure, we recommend using the definition in the Interagency Guidance for consistency and fairness purposes.

Another conflict is created when considering the Community Reinvestment Act (CRA) lending requirements in relation to the impact on assessment rates. It seems contradictory to mandate CRA lending, only to impose higher assessments on banks that do more CRA lending. Banks such as ours who have traditionally supported underserved markets through the development of loan programs which may not qualify as traditional, conforming mortgages may reconsider their programs to the detriment of those market segments. Again, we recommend that the Proposal be revised to eliminate the conflict with existing requirements and guidance.

Subprime Consumer Loans

Subprime consumer loans are defined in the Proposal as loans that include one or more of the following credit risk characteristics: (1) two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months; (2) judgment, foreclosure, repossession, or charge-off in the prior 24 months; (3) bankruptcy in the last 5 years; (4) FICO score of 660 or lower, or other equivalent; or (5) debt service-to-income ratio of 50 percent or greater. The Proposal further provides that loans be included in the measure if they meet the criteria at origination or subsequent to origination.

While we agree with the inclusion of subprime loans, we have some concerns with these provisions as follows:

- There is a conflict with the FDIC Risk Management Manual of Examination Policies which considers subprime lending as a program or strategy that targets higher-risk borrowers, but does not consider prime loans that develop credit problems after origination to be subprime. There should be a single, consistent set of standards for banks to follow with regard to defining subprime lending. Loans that were originated based on higher-risk underwriting standards are rightfully includable in this measure, but we recommend that the post-origination component be excluded from the Proposal.

- While the criteria noted are consistent with the FDIC Risk Management Manual of Examination Policies, FHB believes the definition is overly broad and inconsistent with conventional wisdom. The FICO threshold of 660 and debt service-to-income threshold of 50 percent, from our perspective, fall within acceptable credit risk parameters. In a high cost state such as Hawaii, debt service-to-income ratios tend to be higher just because of higher cost of living which results in larger loan amounts. There is a reasonable likelihood that the standards imposed by this Proposal will have a direct impact on the availability of credit and cost of credit for consumers who fall outside of the defined parameters, so due consideration should be given to defining higher-risk attributes too cautiously.

- Substantial operating procedure changes and system modifications would be required to capture information in order to identify the subject loans and quantify exposures in an efficient and timely manner. Further, because this information is not currently maintained on our loan application, implementation would entail a significant effort to obtain and capture the requisite information. For example, the criteria suggest that we would need to obtain updated FICO scores on a regular basis and review credit reports for delinquencies, judgments, etc. with other creditors. Further, FHB does not require consumer borrowers to submit updated financial information and would thus be unable to ascertain current debt service-to-income ratios. Establishing such processes for the hundreds of thousands of consumer loans in our portfolio would be unduly onerous, not to mention intrusive on our customers. We anticipate increased systems and personnel costs to comply with such requirements, which would adversely impact the profitability of these product offerings and could lead to changes in underwriting and/or product pricing, thereby impacting the availability and cost of credit to consumers.

- We request further guidance regarding the monitoring standards to be imposed. Will there be specific requirements as to the acceptable basis for the determination and minimum frequency of update? If the bank does not obtain a current debt service-to-income ratio, will a loan automatically be treated as subprime?

Recommendation On Measuring Higher-Risk Assets

FHB proposes an alternative method of measuring risk on the categories of higher risk assets set forth above. As is best said, the best predictor of future behavior is past behavior. In terms of risk to the Fund, perhaps it is better said that the best predictor of risk to the Fund is present delinquency and the loan grade given during the latest FDIC examination. Accordingly, FHB proposes that the FDIC consider the usage of the delinquency numbers for the categories of higher-risk assets, and the FDIC loan grade assessed during the latest examination. IDIs already compile delinquency statistics which are reported in Schedule RC-N in the Call Report, and the FDIC would have the results of the examination. It would not be a burden for an IDI to extrapolate delinquency numbers for the higher-risk assets from the figures an IDI must report on the Call Report. This would lessen the reporting burdens on IDIs, thus providing us with the time to do what we do best: make loans because at the end of the day, the best protection to the Fund is an IDI that is viable financially.

The use of the FDIC examination loan grades and delinquency statistics combines the use of two measurements (delinquency and loan grades) that most accurately measures risk without imposing an onerous burden on IDIs.

In addition, we reiterate our earlier recommendation that loans to small businesses and loans supported by credit enhancements be excluded from the category of high risk assets.

Criticized and Classified Items

The Proposal defines criticized and classified items as "items with an internal grade of 'Special Mention' or worse and include retail items under Uniform Retail Classification Guidelines, securities that are internally rated the regulatory equivalent of 'Special Mention' or worse, and marked-to-market counterparty positions that are internally rated the regulatory equivalent of 'Special Mention' or worse, less credit valuation adjustments." This definition conflicts with the FDIC Risk Management Manual of Examination Policies which defines adversely classified assets as Substandard, Doubtful and Loss. The Risk Management Manual specifically states that "Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification." We therefore question the basis for inclusion of Special Mention items in the scope of criticized and classified items. There should be a single, consistent set of standards applied with regard to the determination of an institution's risk profile. Rather than creating a new set of conflicting standards, we recommend that the existing regulatory risk management standards as reflected in the FDIC Risk Management Manual be incorporated into the risk-based assessment system.

General Questions Regarding Reporting

For each of the above measures, there is currently no established reporting requirement. In fact, using the FDIC's assessment calculator, we were required to manually input these values. What is the expected mechanism for this information to be reported for assessment calculation purposes? Will this information need to be disclosed in quarterly Call Reports, updated annually through the examination process, or submitted directly to the FDIC through an alternate means? There is some concern with including previously undisclosed, sensitive information in the

Call Report. There is also concern with the use of examination reports which would not reflect changes occurring between examinations. Additional information regarding the FDIC's plans would be appreciated. FHB is also interested in understanding whether the provisions of the Proposal will have any impact on the examination process, and if so, what those implications may be.

Assessment Base and Goodwill

The Proposal sets forth the calculation of the assessment base as average consolidated total assets minus average Tier 1 capital. Tier 1 capital is reduced by intangible assets such as goodwill. This calculation presumes that the intangible assets would be worthless and are therefore deducted in determining the total amount of an institution's equity available to absorb losses in the event of liquidation or failure. We agree that intangible assets should be deducted from Tier 1 capital because it provides no cushioning effect however, we believe that the logic of deducting intangible assets from Tier 1 capital dictates that intangible assets should also be deducted from assets because such assets pose no potential of harm to the Fund. Without this adjustment, institutions with large amounts of intangible assets will be unfairly assessed. In fact, to the extent that the goodwill was obtained during an acquisition of a less than stellar IDI and thus protecting the Fund, an IDI would be penalized by engaging in an activity that benefited the Fund. To the extent that an acquisition heightened risks of the acquiring IDI, that risk would be reflected in the other measurement risks contemplated by the FDIC.

In an extremely simplified example, an institution with $20 in cash, $1 million in goodwill, $20 in deposit liabilities and $1 million in equity would have an assessment base of $1,000,020, even though the exposure to the deposit insurance fund is only $20. Deduction of goodwill from the asset base would better reflect the assets subject to loss and the exposure to the Deposit Insurance Fund.

While recent Congressional action amended section 7(b)(2) of the Federal Deposit Insurance Act to provide for an assessment base of average consolidated total assets minus average tangible equity, the FDIC is vested with the discretion to define assets in a way that truly measures risk to the Fund. It has done so by focusing on certain higher risk assets. FHB urges the FDIC to further refine its view of assets that pose a risk to the Fund by adopting a risk-weighted measurement of assets in the higher-risk asset category because FHB believes that it is a more indicative measure of the relative risk inherent in an institution's asset base and would contribute to the risk-sensitivity of the assessment calculation. Risk-weighting is not a foreign concept to IDIs since that concept is embedded in the capital calculation. Logically, it should also be included in the asset calculation. Again by way of example, assume two institutions with comparable balance sheets, except one institution maintains a greater proportion of their investment securities portfolio in AAA-rated securities, while the second institution invests predominantly in lower-rated or subinvestment grade securities. Both institutions would report and be assessed on the same amount of total assets, but the former's risk-weighted asset calculation would more appropriately reflect the lower risk. Institutions that maintain a highly liquid, low-risk balance sheet pose less risk to the Fund, and utilization of risk-weighted assets instead of total assets would provide a fairer basis for calculating assessments.

Conclusion

In summary, we reiterate that we support the objective of risk-based assessments, but look forward to reconsideration and clarification of the issues posed above. Thank you again for the opportunity to comment on the Proposal. Should you have any questions or want to discuss any of these issues further, please call me at (808) 525-8800.

Sincerely,

Albert M. Yamada
Vice Chairman, CFO and Chief Administrative Officer