American Bankers Association
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January 11, 2011

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

Re: RIN 3064–AD66; Notice of Proposed Rulemaking Regarding the Pricing of Large Bank Assessments; 12 CFR Part 327; 75 Federal Register 72612, November 24, 2010

Dear Mr. Feldman:

This letter adds to the comments the American Bankers Association (ABA)[1] submitted on January 3, 2011, regarding the proposed pricing scheme for banks with over $10 billion in assets. Since filing those comments, some ABA member banks have brought to our attention another issue. Accordingly, we are writing again to bring up another issue relative to the proposal.

Our additional issue involves the definition of "leveraged loans" used in the measure of "higher-risk assets/tier 1 capital and reserves." Bankers from large institutions do not object to the use of high-risk, leveraged loans and securities in assessment pricing. However, ***the definition presented in the proposal goes well beyond the bounds of what should be considered as leveraged loans – encompassing credits that are clearly not "high-risk assets."*** Moreover***, tracking and reporting all exposures that meet this definition would represent a major reporting burden.***

The proposal defines leveraged loans for the purpose of assessment pricing as:[2]

> All commercial loans – funded and unfunded and securities … excluding those securities classified as trading book, that meet any one of the following conditions:
> - Loans or securities where proceeds are used for buyout, acquisition, and recapitalization;
> - Loans or securities with a balance sheet leverage ratio … higher than 50 percent or where a transaction resulted in an increase in the leverage ratio of more than 75 percent…;[3] or

[1] ABA represents banks of all sizes and charters and is the voice for the nation's $13.4 trillion banking industry and its two million employees. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities. While the majority of ABA's members are banks with less than $165 million in assets, banks directly affected by the proposal are strongly represented in ABA's membership and actively participated in the development of this comment letter.
[2] FDIC, 75 Federal Register 72649, November 24, 2010.

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- highly leveraged transactions (HLT) by syndication agent.

Since a loan or security would be encompassed in this definition if it meets ***any*** of the three criteria, bankers indicate that it captures many loans ***that do not represent elevated risk***. The first condition would classify as high risk even a modestly leveraged loan to finance an acquisition for a firm whose balance sheet remains strong even after the transaction. An acquisition loan should not be considered as high risk unless it results in a highly leveraged balance sheet. Moreover, some consideration should be given to the collateral position of the deal. A fully secured loan should not be classified as leveraged.

The second bullet would capture credits that result in a 75 percent rise in leverage – even though the borrowing firm may have a strong balance sheet after borrowing. Moreover, bankers have indicated that classifying as high-risk any loan where the borrower's liabilities exceed its net worth could cover most business loans and would be very conservative.

The proposal provides further that a "large bank" must continuously monitor each commercial borrower so that, if its net worth declines below the level of its debt, it must be added to what is counted as a leveraged loan.[4] This provision would require significant ongoing tracking and analysis of borrowers' financial statements for ***all*** loans in the portfolio and would be an administrative nightmare and time-consuming burden.

In light of these objections, ***ABA recommends that the FDIC revise the definition of leveraged loans to include only those that at origination truly represent elevated risk***. The FDIC must support its definition with rigorous statistical analysis, which is lacking in the proposal.

ABA appreciates this opportunity to comment on the proposed rule. We are prepared to work with the FDIC in resolving remaining issues in the proposal to arrive at a premium program that is more accurately sensitive to genuine risk and, thereby, a useful tool in encouraging better risk management by banks and by the FDIC.

Sincerely,

Robert W. Strand

Senior Economist

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[3] The second condition goes on to specify: "loans or securities where [the] borrower's operating leverage ratio … or senior debt/trailing twelve month EBITDA are above 4.0X EBITDA or 3.0X EBITDA, respectively." Bankers have indicated that these cash flow leverage ratios are, in fact, representative of leveraged loans but bear no connection to the 50 percent ratio cited.

[4] FDIC, 75 Federal Register 72649, November 24, 2010.