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December 15, 2011

Bobby Bean
Associate Director for Capital Markets Branch
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Risk-Based Capital Guidelines: Market Risk; Alternatives to Credit Ratings for Debt and Securitization Positions

Dear Mr. Bean:

I am writing to ask that the FDIC modify their position on the proposed "Market Risk; Alternatives to Credit Ratings for Debt and Securitization Positions".
The time may have come for a tiered rules structure. Small banks should be allowed to continue to use national rating systems (Moody's, S & P, and Fitch) when buying bonds for several reasons:

1. The pure cost of independent research on individual small bonds bought is just too high for small banks to bear.
2. How many small banks failed in the last 10 years from bad bond ratings. If no failures, why change? The FDIC should focus on the reasons why small banks failed and not on bond ratings which do not cause small bank failures.
3. Unfortunately many of the poorly managed banks will focus on the cost of an outside provider of research (not the best) and, therefore, that will definitely question the analysis. They will possibly also focus on outside firms that will give them good marks on their bonds and not quality analysis. Many banks that have failed in the past have focused on appraisers that gave them the appraisal value that they wanted rather than the realistic value of their collateral.
4. Small banks are much better served by uniform measurements by national bond rating services. That way there is a true comparison and fair and even regulation of all small banks across the country. Use of individual independent research will cause examiners in different parts of the country to look at bonds differently and, therefore, subject different banks to different levels of regulation.

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5. The majority of bonds owned by small banks have not had bond rating problems since most small bank portfolios are centered in agency securities and municipal bonds. If nothing else focus this change on more exotic securities and leave plain vanilla bonds to the rating agency ratings.

I am not suggesting the tier size of a tiered regulatory environment but only that small banks should be able to use the consistent, affordable and (from a regulatory standpoint) best way to measure the safety of a small bank's bond portfolio.

Thank you for your consideration.

Sincerely,

Steven A. Grell
Chairman

SG:db