INDEPENDENT COMMUNITY
BANKERS of AMERICA

July 29, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

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

Office of the Comptroller of the Currency
250 E Street, SW
Washington, D.C. 20219

Re: Proposed Guidance on Stress Testing for Banking Organizations with More Than $10 Billion in Total Consolidated Assets-(Fed Docket No. OP-1411; OCC Docket ID OCC-2011-0011)

Dear Sir and Madam:

The Independent Community Bankers of America[1] (ICBA) welcomes the opportunity to comment on the banking agencies' proposed guidance on stress testing. The proposed joint guidance would apply to all Federal Reserve-supervised, FDIC-supervised, and OCC-supervised banking organizations with more than $10 billion in total consolidated assets and outlines high-level principles for stress testing practices.

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[1] The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever changing marketplace.

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold $1 trillion in assets, $800 billion in deposits, and $700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

ICBA's Comments

ICBA agrees with the banking agencies on the importance of stress testing the largest banking organizations. The 2007-2009 financial crisis underscored the need for large banking organizations to incorporate stress testing into their risk management practices, as many of these organizations were not adequately prepared for the stressful events that followed the September 2008 bankruptcy of Lehman Brothers when the financial markets became completely dysfunctional.

Stress testing is a useful tool for identifying an institution's vulnerabilities and assessing their potential impact, reviewing capital adequacy and enhancing capital planning, and assessing liquidity adequacy and contingency funding plans. It can also be useful to assist in highlighting unidentified or under-assessed risk concentrations and interrelationships and their potential impact on the banking organization during times of stress. Clearly, this would have been very helpful in identifying those large banks that were overexposed to derivatives and to subprime mortgages during the financial crisis.

ICBA also commends the banking agencies for not requiring stress testing for organizations with consolidated assets of $10 billion or under. Although many community banks already stress test their loans and their investment portfolios for interest and credit rate risks and the adequacy of their capital, they do not engage in the type of extensive and continuous stress testing that is contemplated by the proposed joint guidance. **To require community banks to continuously stress test every aspect of their balance sheet, product lines and operations would be both costly and burdensome.** Stress testing should confined to those complex large organizations with material risk exposures to the banking system through derivatives and other types of products, and substantial on and off balance sheet items that are vulnerable to sudden changes in the market.

We also commend the agencies for recognizing that a banking organization should develop and implement a stress testing framework that is commensurate with its size, complexity, business activities and overall risk profile. The first principle of the proposed guidance states that a banking organization's stress testing framework should include activities and exercises that are tailored to, and sufficiently capture the banking organization's exposures, activities, and risks. A stress test for a trillion dollar banking organization like Bank of America or Citibank should be completely different and much more thorough and comprehensive than that required of a less complex organization that has $10 to $20 billion in assets and operates more like a community bank. ICBA hopes that the agencies will implement this tiered approach to stress testing.

Finally, ICBA would like to emphasize the point made in the guidance that no single stress test can accurately estimate the impact of all stressful events and circumstances.

Therefore, capital and liquidity testing for the large banks should consider how earnings, capital, and liquidity would be affected in an environment in which multiple risks manifest themselves at the same time. Additionally, large banking organizations should recognize that at the end of the time horizon considered by a given stress test, the banking organization may still have substantial residual risks or problem exposures that may continue to pressure capital and liquidity resources. **Therefore, in the case of the largest, too-big-to-fail banks, no amount of stress testing or other risk management tools can ever take the place of enhanced supervision and examination, additional capital and liquidity requirements, contingent resolution plans, and additional restrictions on proprietary trading and derivatives, for ensuring that the largest banks are prepared for the type of financial crisis that followed the Lehman Brothers bankruptcy.**

Conclusion

ICBA agrees with the banking agencies on the importance of stress testing the largest banking organizations and commends them for not requiring stress testing for organizations with consolidated assets of $10 billion or under. For the large banks, stress testing would have been helpful during the 2007-2009 financial crisis in identifying those institutions that were overexposed to derivatives and to subprime mortgages. However, for most community banks, the regulatory burden and cost of continuously stress testing every aspect of a bank's balance sheet as outlined in the proposed joint guidance would substantially outweigh the benefits.

We also commend the agencies for recognizing that a banking organization should develop and implement a stress testing framework that is commensurate with its size, complexity, business activities and overall risk profile. Certainly, banks with consolidated assets of $10 to $20 billion should not be subject to the same type of stress testing requirements as those complex institutions with consolidated assets over $100 billion or more with exposures to derivatives. When the banking agencies implement the stress testing requirements imposed by section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, those test requirements should be significantly more extensive than the ones outlined in the proposed joint guidance since they will apply to the very largest and most complex banks.

ICBA appreciates the opportunity to comment on the banking agencies' proposed joint guidance on stress testing. If you have any questions about our letter, please do not hesitate to contact me at 202-659-8111 or Chris.Cole@icba.org.

Sincerely,
/c/ Christopher Cole

Christopher Cole
Senior Vice President and Senior Regulatory Counsel