SALVATORE MARRANCA
Chairman
JEFFREY L. GERHART
Chairman-Elect
WILLIAM A. LOVING, JR.
Vice Chairman
JACK A. HARTINGS
Treasurer
STEVEN R. GARDNER
Secretary
JAMES D. MACPHEE
Immediate Past Chairman
CAMDEN R. FINE
President and CEO

February 3, 2012

Office of the Comptroller of the Currency
250 E Streets, SW
Mail Stop 2-3
Washington, DC 20219
Re: Docket ID OCC-2010-0003

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Re: Docket No. R-1401

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Re: RIN 3064-AD70

Dear Sir or Madam:

The Independent Community Bankers of America[1] (ICBA) welcomes the opportunity to comment on the proposed rule, Risk-Based Capital Guidelines: Market Risk; Alternatives to Credit Ratings for Debt and Securitization Positions.

---

[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 over 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.

The proposed rule implements Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act that directs the Federal agencies to review any regulation that requires the use of an assessment of creditworthiness of a security or money market instrument and any reference to, or requirements in such regulations regarding credit ratings. The Act requires the agencies to remove any references to, or requirements of reliance on credit ratings and substitute such standard of credit worthiness as each agency determines is appropriate. Also, the statute provides that the agencies establish, to the extent feasible, uniform standards of creditworthiness, taking into account the entities the agencies regulate and the purposes for which those entities would rely on such standards. The agencies are proposing to incorporate into the proposed market risk capital rules certain alternative methodologies for calculating specific risk capital requirements for debt and securitization positions that do not rely on credit ratings. While the market risk capital rules, and therefore this proposed rule, do not apply to community banks, we do have some comments about the removal of credit ratings references as called for by the Dodd-Frank Act as the agencies work to develop appropriate alternative credit worthiness standards to comply with Section 939A. Decisions agencies make as they develop a final rule on alternatives to credit ratings for the purposes of market risk capital rules ultimately could have an impact on rules that do apply to community banks.

Need for Consistent Standards

We agree with the agencies that it is important to align the methodologies for calculating specific risk-weighting factors for debt positions and securitization positions in the market risk capital rules with methodologies for assigning risk weights under the agencies' other capital rules to reduce the potential for regulatory arbitrage between rules. In our view, this alignment will aid compliance and transparency. Credit worthiness standards should generally be consistent across rules and regulatory agencies to the extent practical. The Federal Reserve, Federal Deposit Insurance Corporation, Securities and Exchange Commission and Office of the Comptroller of the Currency (OCC) are working on various rules addressing creditworthiness standards. Creditworthiness standards may be used for risk-based capital standards, permissible investments and other regulatory requirements. Ensuring consistency, to the extent practical, of definitions and requirements would foster transparency, limit confusion for investors and aid compliance with credit risk management requirements.

Having a strong and robust risk management framework that is appropriate for the level of risk in an institution's investment portfolio is very important for managing portfolio credit risk. We recognize the challenges and constraints that the agencies face in implementing the requirements of Section 939A. Previously, investing institutions could use credit ratings as a ready, understandable tool to help them make investment decisions. However, now a greater focus will be placed on their own internal credit analysis. Though we would not expect to see community banks hold some of the debt securities envisioned by the proposed rule that are held by large banks with trading portfolios--such as very complex debt instruments or debt instruments issued by foreign sovereign entities--aspects of the analytics discussed in the proposed rule would certainly be beyond the capabilities of community banks. The analytics would serve either as a strong

disincentive to purchase and hold such securities, or would force community banks to place a heavy reliance on third party analysis.

Municipal Bonds
One type of security that community banks do often invest in that can be challenging to analyze is municipal bonds. Many community banks invest in debt securities of their local municipalities, or Public Sector Entities as defined in the proposed rule, investment securities that often have not been rated in the past. These securities have provided good investment opportunities for community banks, enabling them to support their local municipalities, and the communities they serve, in the process. Any new rules or guidance should not negatively impact the ability of community banks to continue to buy and hold these securities because of changes in concentration limits that may result in the implementation of the new rules and guidance or because there may not be as many sources of information about the issuer and its creditworthiness as may be available for larger issuers.

Use of Third Party Analysis
Community banks should be permitted to consider external data and credit analyses provided by third parties to help make credit worthiness determinations as it will help them manage the analytic burden, and, as stated above, complex analytic requirements may necessitate it. As the improvements to the regulation of credit ratings agencies are implemented, as called for in the Dodd-Frank Act, credit ratings should improve greatly in quality and hopefully can once again be relied on as a useful analytic tool.

Investment Grade
The proposed rule refers to the OCC's proposed revisions to 12 CFR part 1 addressing the use of credit ratings as a factor for determining the credit quality, marketability, and appropriate concentration levels of investment securities purchased and held by national banks, including how to determine if an investment is "investment grade." The agencies are considering such an approach for this rule. As ICBA told the OCC in a comment letter dated January 12, 2012, we are concerned that bankers will find the proposed rule and guidance confusing as to the type and depth of analysis needed to determine if an investment is "investment grade." While the proposed guidance provides a list of factors for consideration, banks may find it difficult to determine how far examiners will expect them to go in conducting due diligence for each investment security. ICBA is particularly concerned about the ability of community banks to meet expanded analysis requirements and the greater burden it places on them, due to their limited resources, as compared to larger institutions. Recognition of the need to balance an adequate process with the size and complexity of the institution and its investments should be communicated in the guidance and to examiners.

Institutions should be permitted to retain current long-term investments where there is no manifestation of credit deterioration, even though the changes to the analytic process may result in a different creditworthiness determination. Implementing a new method of determining creditworthiness, including concentration implications, may present

problems for smaller institutions that hold local municipal securities with an illiquid market. Requiring them to sell instruments, which they would otherwise typically hold until they mature, could have significant negative accounting implications.

We appreciate the opportunity to comment. Please contact me by email at ann.grochala@icba.org or by phone at 202-659-8111 if you would like to discuss our comments further.

Sincerely,

/s/
Ann M. Grochala
Vice President, Lending and Housing Policy