STERLING SAVINGS BANK

May 16, 2011

Mr. Gary A. Kuiper, Counsel
Attn: Comments, Room F-1086
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Consolidated Reports of Condition and Income, 3064-0052

Thank you for the opportunity to provide comments on the Call Report changes designed in part to capture data elements for use in the Large Bank Pricing scoring model (LBP) adopted by the FDIC Board on February 7, 2011. Following recent adoption of this rule, Sterling Savings Bank ("Sterling"), along with many banks, began to analyze the associated reporting requirements, with the intent of developing procedures to provide the necessary data. In this process, it become apparent that the proposed definitions of sub-prime consumer loans and leveraged commercial loans are much more expansive and prescriptive than in any previous interagency guidance.

As defined in the draft Call Report instructions, Sterling respectfully submits that the FDIC is requesting data that cannot be reasonably and consistently gathered, not readily maintained in our core loan systems, is data that might be available in some cases from a manual search of loan files and is a selective application of data on borrower or loan characteristics that may yield inappropriate and misleading results.

Both the 2001 Interagency Guidance definition of subprime consumer loans and the 2008 Comptroller's Handbook definition of leveraged lending provides a range of borrower characteristics and loan conditions. Sterling has previously reviewed these definitions for potential classification of loans as subprime or leveraged based on a general consideration of the sets of characteristics and conditions. These sets of guidance have explicitly used terms such as ***"may include", "may display",*** and ***"range of characteristics"*** to indicate that the lists are illustrative rather than exhaustive, and were not, by themselves, meant to define specific parameters for all borrowers. Sterling has never used a pass-or-fail test on any or all of the range of characteristics, but just a pass-or-fail test on whether a loan is subprime or leveraged. Importantly, missing from the proposed instructions are critical defining characteristics or conditions such as ***"purpose"*** or ***"program of origination"***.

By using all currently available guidance, Sterling has never classified or reported any loan as sub-prime or leveraged. There is no data field, or "flag", in our core system that identifies either of these loans types. We have never engaged in any loan origination program targeting sub-prime borrowers, nor have we engaged in lending that was targeted for private equity buy-outs, mergers and acquisitions, or recapitalizations that would have resulted in a substantial increase in the borrower's leverage. However, these new prescriptive definitions would classify as sub-prime a new loan to a wealthy retired individual who in going south for the winter failed to correctly forward his mail and found himself more than 30 days delinquent on several payments. The new

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definitions would also classify as levered many commercial non-real estate secured loans to non-profit entities. Sterling has to believe that the regulatory agencies would never have expected or deemed these loans to be in those categories.

The definitions have created a difficult situation for Sterling and other institutions subject to these rules. We are unable to capture and report the required data in a way that is defensible and auditable. Should the Call Report proposal move forward without modification, it may be impossible for Sterling to attest to the accuracy of the data reported.

Sterling has approximately 51,000 residential and consumer loans with a little more than $1.5 billion in outstanding balances, plus another $312 million in unfunded commitments. These loans form the base population against which we would be required to search for borrowers who displayed one or more of the four defined sub-prime credit risk characteristics at origination or refinancing.

The first challenge will be capturing past delinquencies, foreclosures, judgments or bankruptcies. Sterling does not maintain on our system information about a borrower's prior, non-Sterling related payment history. This would require a manual file review, and that process would be dependent on the credit reports containing the appropriate information in formats that would allow identification of the condition and the time frame for each look-back period. The required information is generally less complete for loans acquired through mergers, of which Sterling has four bank acquisitions since 2004.

The second challenge will be calculating the debt-service to income ratio. While Sterling maintains this information within the loan files, our core system has values populated for approximately 20% of the loans on our mortgage platform, which, out of the totals noted above, amounts to approximately 16,000 loans and $749 million in outstanding balances. The one data field that is more consistently populated in our loan systems is FICO score. However, the draft instructions excluded this more commonly used criterion for sub-prime loans from consideration for completing the disclosure.

For our approximately 2,800 commercial non-real estate secured loans, with outstanding balances of almost $475 million and $215 million in unused commitments, a manual file review would be required for a significant portion of the loans in excess of $1 million. We have never originated a loan qualifying as a leveraged loan under the current OCC guidelines. Thus, it would require considerable manual resources and new methods to attempt capturing, aggregating, and reporting the information. Given the short timeframe, bankers would have to focus on completing spreadsheets for credit administration personnel to compile and, in turn, provide to the regulatory reporting group. To be able to do this for the June 30, 2011 Call Report date would take a remarkable effort, and would divert bankers and credit personnel away from their primary responsibilities. Moreover, there is a low likelihood of loans qualifying as leveraged, and there will not be a high degree of comfort in the data provided, which once again raises materiality and certification concerns.

Given the current challenge of providing the required data, Sterling believes that it is prudent not to require these changes in the Call Report until more reasonable definitions can be created. It would not be prudent to move forward on a requirement that cannot possibly be met by Sterling and, we believe, the majority of the industry.

We realize that not implementing the Call Report changes related to these data elements will mean that this information will not be available for the LBP pricing model. But given that Sterling cannot in good faith provide the data required under the rule, or certify the accuracy of any data that may be provided on subprime consumer loans and leveraged commercial loans, the use of these elements and the conclusions drawn from them for assessment purposes would be suspect. As these elements have not been explicitly used in assessing premiums before, and given that risk exposure is measured in many different ways from other variables included (particularly CAMELS ratings), exclusion of these data until reasonable definitions can be applied should not be problematic. It may well be the case that there is greater danger of inadvertent distortions in distinguishing relative risk among this set of large institutions by going forward with reporting as prescribed in the LBP rule.

At a minimum, Sterling believes that the Call Report instructions should clarify the intent of the rule, incorporate existing guidance and provide the necessary flexibility to report based on current practices. This approach would provide data that conforms with standards already established by regulators and refined over time, is defensible by the institution, has been, in many cases, reviewed by field examiners, is consistent with the calibration of the scoring model, and reflects the view expressed in the final rule that it is already being provided to regulators.

Sterling respectfully recommends that it may be time to step back and have a thorough review of the instructions. We believe that the unintended consequences can be mitigated by either delaying the inclusion of these elements in the Call Report or, if that approach is impractical given the implementation of the LBP rule, we suggest by amendment of the Call Report instructions to enable reporting of subprime consumer and leveraged commercial loans or securities based on current generally accepted definitions, which also incorporates as characteristics and conditions the original purpose of the loan and program of origination.

Respectfully submitted:

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