INDEPENDENT COMMUNITY BANKERS of AMERICA®

April 23, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
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: Annual Stress Test; RIN 3064-AD91; OCC Docket 2011-0029

Dear Sir or Madam:

The Independent Community Bankers of America[1] (ICBA) welcomes the opportunity to comment on proposed rules issued by the OCC and the FDIC that implement the requirements in Section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) regarding stress tests. In the case of the FDIC proposal, the proposed rule would require state nonmember banks and state savings associations supervised by the FDIC and with total consolidated assets of more than $10 billion to conduct annual stress tests and report the results of such stress tests to the FDIC and the Federal Reserve. In the case of the OCC proposal, the rule would require national banks and Federal savings associations with total consolidated assets of more than $10 billion to conduct annual stress tests and report the results to the OCC and the Federal Reserve. In both cases, a summary of stress test results would have to be published by the institution within 90 days of submitting the stress test report to the regulators. The Federal Reserve has previously proposed rules on implementing supervisory stress tests for bank holding companies with total consolidated assets equal to or greater than $50 billion and for systemically important nonbank financial companies.

[1] [1] *The Independent Community Bankers of America®, the nation's voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best- in-class education and high-quality products and services. For more information, visit www.icba.org.*

INDEPENDENT COMMUNITY BANKERS of AMERICA *The Nation's Voice for Community Banks.®*
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ICBA's Comments

ICBA agrees with the banking agencies on the importance of stress testing the largest banking organizations. The 2007-2009 financial crises 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 will provide forward-looking information to assist the regulators in their overall assessment of a large bank's capital adequacy, helping to better identify potential downside risks and the potential impact of adverse outcomes on the large bank's capital adequacy, and to assist it in ensuring the institution's financial stability.

Under the proposed rules, covered institutions would be required to conduct annual stress tests using the bank's financial data as of September 30th of that year to assess the potential impact of different scenarios on the consolidated earnings and capital of that institution and certain related items over a nine-quarter forward-looking planning horizon, taking into account all relevant exposures and activities. The proposed rules would require each covered institution to use a minimum of three sets of economic and financial conditions, including baseline, adverse, and severely adverse scenarios. These economic or financial "scenarios" will be provided by the regulators approximately two months in advance of the time by which the institution must report the results of the annual stress test.

It is critical that the agencies coordinate the development of the annual stress test scenarios on an interagency basis to ensure consistent and comparable stress testing for all covered financial institutions and to minimize regulatory burden. For most institutions with between $10 billion and $50 billion in assets, we recommend that the scenarios address general macroeconomic factors only. Institutions that are more complex or that have significant trading positions should incorporate rate "shocks" into their stress tests.

We note there are some differences between the FDIC and the OCC proposals. For instance, the OCC proposal asks whether a covered institution should develop its own scenarios for the annual stress tests in lieu of the agencies providing them, whereas the FDIC proposal does not allow for that flexibility. Also, the OCC appears to be more concerned with the impact of the stress tests on an institution's capital, whereas the FDIC also focuses on other aspects, such as earnings and loan loss provisions**. These differences in the two proposals could produce inconsistencies in the implementation of stress testing. ICBA urges the FDIC and the OCC to resolve these differences so that the tests are implemented consistently among all covered institutions.**

ICBA also commends the banking agencies for not requiring stress testing for institutions 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 OCC and the FDIC proposals. **To require community banks to annually stress test based on complicated economic and financial scenarios would be both costly and burdensome.** Stress testing should be 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.

Finally, ICBA would like to emphasize the point that no single stress test can accurately estimate the impact of all stressful events and circumstances. Therefore, capital and liquidity testing for the largest institutions 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 institutions should recognize that at the end of the time horizon considered by a given stress test, the banking institution 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 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 FDIC and the OCC on the importance of stress testing for the largest banking organizations. However, it is critical that the banking agencies coordinate the development of the annual stress test scenarios on an interagency basis to ensure consistent and comparable stress testing for all large financial institutions and to minimize regulatory burden. Differences between the two proposals should be resolved so that the tests are implemented consistently.

ICBA commends the regulatory agencies for not requiring stress testing for institutions 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 annual stress tests would substantially outweigh the benefits.

ICBA appreciates the opportunity to comment on the FDIC's and the OCC's proposed rules 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