



April 30, 2012

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

Re: 12 CFR Part 325, Subpart C, RIN: 3064-AD91

Filed via: <http://www.FDIC.gov/regulations/laws/federal/propose.html>

Dear Secretary Feldman:

These comments are submitted on behalf of the National Association of Industrial Bankers (NAIB) ¹ regarding the Federal Deposit Insurance Corporation's (FDIC) proposed rule implementing Section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding stress tests by requiring state nonmember banks and state savings associations supervised by the FDIC with total consolidated assets of more than \$10 billion to conduct annual stress tests.

While NAIB recognizes that the FDIC is constrained by the underlying statute, our member banks urge more transparency of the testing criteria and a more robust response and rebuttal period before test results are released to the public.

General Policy Comments

NAIB members have expressed concerns that the proposal does not sufficiently address the considerable reputation risk for a bank involved in this process. Because results are

¹ First chartered in 1910, industrial banks operate under a number of titles; industrial banks, industrial loan banks, industrial loan corporations, thrift and loan companies. These banks engage in consumer and commercial lending on both a secured and unsecured basis. They do not offer demand checking accounts but do accept time deposits, savings deposit money market accounts and deposits that may be withdrawn through negotiable orders for withdrawal ("NOW" accounts). Industrial banks provide a broad array of products and services to customers and small businesses nationwide, including some of the most underserved segments of the U.S. economy. Our members are chartered in California, Nevada and Utah.

publicized, any flaws in the design or application of the test and any error in the results could cause significant, unnecessary and avoidable damage to the banks involved. To control this large added risk, the banks involved should have multiple opportunities to review and comment on how the stress test process is designed, conducted and publicized by the regulators.

Specifically, banks should be entitled to detailed disclosure and opportunity to comment on the method, factors and weightings that will be used in the test before it is applied. Banking is no longer a one-size-fits-all model. Creating a formula for one kind of bank may not be appropriate for other kinds of banks. For example, certain funding strategies can present higher risks in some banks than in others. The banks to be tested should have an opportunity to review and comment on these criteria before they are utilized.

After tests are conducted, banks should have specified opportunities to review and adjust test results prior to public disclosure. Once results are finalized with bank input, plans for disclosing test results should be carefully devised beforehand and banks should have an opportunity in that process to respond to and comment on the results.

Additional member comments regarding specific provisions of the proposal are the following:

1. “The Corporation expects that the stress test required under the proposed rule would be one component of the broader stress testing activities.”

As part of the discussion about methodology, factors and weightings, NAIB members believe the FDIC should determine beforehand how stress test results will be used in the overall assessment of a covered bank. For example, what weights will be applied to each component (*i.e.* liquidity, capital adequacy) of the test?

2. “Each year, in advance of the annual stress test required of all covered banks on a schedule to be established, the Corporation would provide at least three scenarios, including baseline, adverse and severely adverse, that each covered bank must use to conduct its annual stress test required under the proposed rule.”

The proposal indicates that the FDIC will send the stress test scenarios no later than mid-November with covered bank responses due back to the FDIC by January 5. NAIB members believe this schedule is too short. The scenarios may not arrive until covered banks are fully engaged in preparing for year-end closing. Our member banks recommend sending them by mid-October at the latest. After the tests are conducted, banks should also be afforded more time to respond and reconcile test results if necessary.

3. “The Corporation envisions that feedback concerning such analysis would be provided to a covered bank through the supervisory process.”

Given the reputation risk posed by public release of the results, NAIB believes there must be a process separate from the safety and soundness examination cycle for covered banks and the FDIC to review the adequacy of the analysis performed by each bank.

4. “The Corporation reserves the authority to require a covered bank to make additional publications beyond those required by this subpart if the Corporation determines that such covered bank’s publication does not adequately address one or more material elements of the stress test”

Again, due to the reputational risk posed by this part of the rule, NAIB reemphasizes there must be a process for covered banks to review the need for an additional disclosure with the FDIC.

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NAIB urges the FDIC to revise the proposal and republish a more open and transparent process. We appreciate the opportunity to share our views and would be pleased to discuss any of them further at your convenience. I may be reached at (801) 355-9188 or frank@fputah.com.

Sincerely,

Frank R. Pignanelli

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