June 29, 2005

Office of the Comptroller of the Currency
250 E Street, SW. Public Information Room, Mailstop 1-5
Washington, DC 20219
Attention: Docket No. 05-08 Via Email: *regs.comments@occ.treas.gov*

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW. Washington, DC 20429
Attention: Comments
Via Email: *comments@fdic.gov*

Regulation Comments Chief Counsel's Office
Office of Thrift Supervision 1700 G Street NW. Washington, DC 20552 Attention: No. 2005-14 Via Email: *regs.comments@ots.treas.gov*

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Docket No. OP-1227
Via Email: *regs.comments@federalreserve.gov*

Re: Interagency Proposal on the Classification of Commercial Credit Exposures
No. 2005-14; 70 FR (March 28, 2005)

Dear Sir or Madam:

America's Community Bankers ("ACB")[1] is pleased to comment on the "Interagency Proposal on the Classification of Commercial Credit Exposures" issued by the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Board of Governors of the Federal Reserve System, collectively the "agencies." The proposal would replace the current commercial loan classification system categories of "special mention," "substandard," and "doubtful" with a two-dimensional framework. The new framework would be based on an assessment of borrower creditworthiness and estimated loss severity.

[1] America's Community Bankers represents the nation's community banks. ACB members, whose aggregate assets total more than $1 trillion, pursue progressive, entrepreneurial and service-oriented strategies in providing financial services to benefit their customers and communities.

ACB Position

ACB respectfully requests that the agencies withdraw the current proposal. ACB appreciates the efforts by the agencies to provide an enhanced methodology for banks and regulators to systematically assess the level of credit risk in commercial loan portfolios. However, we have serious concerns on whether this guidance can be reasonably applied by community banks and are unconvinced that it would result in much, if any, improvement over what is provided under the existing framework for many of those institutions.

ACB is concerned that the proposed framework will be too complex, costly and burdensome for smaller financial institutions to implement. The guidance proposes a framework that would force unnecessary complexity into the existing, well-understood, widely recognized and long-standing credit rating system insured depositories have been using for over 60 years.[2] Community banks are overburdened with regulations on all aspects of their business and additional requirements only get more voluminous. We do not believe that this proposal is necessary and in fact will be detrimental to the business of community banking.

Community banks have become very proficient in assigning these classifications to the diverse types of commercial loans. The proposal specifies that the agencies intend to impose this revised scheme on banks of all sizes. While institutions of all sizes could certainly implement the approach, it hardly seems logical that smaller community banks should be forced to go through such an exercise when the current system is working well. The proposed two-dimensional framework would be extremely difficult for most smaller banks to implement efficiently. Many community banks currently rely on automated systems to assist them in identifying and managing credit risk, and to help them assign the appropriate classifications. The revised framework will not only require significant revisions to these systems, but also to the associated policies for loan review, loan grading and allowance for loan and lease losses in order to comply with the new classifications process.

ACB does not agree with the agencies' statement in the proposal that this new framework would diminish the number of disagreements between examiners and bank management on loan classifications for individual loans. The process of examiner review, and sometimes challenge, of the bank's internally assigned loan classifications is a healthy process that provides a further check on the integrity of the bank's loan grading system and overall classifications. The proposed justification in the guidance suggesting that the two-dimensional framework will preclude these disagreements is ill-conceived, and fails to provide any validation for the proposed framework. Rather, ACB is concerned that the guidance is likely to only contribute further to the current environment of over-regulation of community banks.

ACB also disagrees that this new framework will help institutions in estimating the allowance for loan and lease losses (ALLL). Banks are already receiving conflicting guidance from external auditors and examiners on ALLL methodologies and levels. This disconnect is partly attributable to ambiguous and dated accounting standards and regulatory guidance on the ALLL.

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[2] The special mention, substandard, doubtful and loss supervisory categories currently used by the agencies were originally issued in 1938.

ACB does not believe that the proposed changes to the commercial credit classifications will improve the current ALLL confusion. Rather, we are concerned that the proposed framework will cause further ambiguity for banks as to how to properly formulate an adequate loan loss reserve in accordance with GAAP.

ACB recognizes that many institutions, including multi-national banks preparing for Basel II compliance, are already employing two-dimensional loan grading systems that encompass some of the principles in the proposed framework. ACB believes that those banks should be able to use their Basel II internal ratings based structures to assign their asset quality ratings. Additionally, we would support other larger, complex institutions wishing to adopt similar commercial grading systems being permitted to utilize that "option." However, we urge that the agencies not require smaller, less complex banks to implement the proposed sophisticated framework. ACB strongly urges the agencies to revisit the proposed guidance and reconsider the unnecessary requirement to apply such an approach to all institutions.

Conclusion

ACB appreciates the agencies' efforts in trying to improve the current commercial credit classifications, but does not believe there is adequate justification to impose the revised framework on all financial institutions. We believe that the costs to smaller banks would greatly outweigh any benefits from such a system. We request the agencies to withdraw the proposal.

ACB maintains a Commercial Banking Committee comprising over 40 senior community banking officials, and we stand ready to further discuss the concerns of our members and look forward to further dialogue with the agencies regarding this initiative. The ACB staff person responsible for the committee is Bob Seiwert, Senior Vice President, Commercial Banking. He can be reached at (202) 857- 3125 or by email at rseiwert@ACBankers.org.

Should you have any questions, please contact the undersigned at 202-857-3121 or via email at cbahin@ACBankers.org, or Dennis Hild at 202-857-3158 or via e-mail at dhild@ACBankers.org.

Sincerely,

Charlotte M. Bahin
Senior Vice President
Regulatory Affairs