STATE OF ALABAMA
STATE BANKING DEPARTMENT

Bob Riley
Governor

John D. Harrison
Superintendent of Banks

June 20, 2005

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attention: Comments
Via Email:
Comments@FDIC.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: Comments on Interagency Proposal on the Classification of Commercial Credit Exposures

Dear Mr. Feldman and Ms. Johnson:

We are writing to express our unequivocal opposition to this proposal. Our department regulates 128 commercial banks with $155 billion in total assets doing business in 19 states. These companies include three of the top 50 commercial banks and range in size from $13 million to $84 billion. We have had no bank failure since 1987.

In large part, we have been able to maintain a safe and sound Alabama banking industry due to conservative management and credit underwriting. This conservative credit underwriting has been aided by a system of classifying credits which is well-understood by examiners and bankers. We all understand the meanings of Substandard, Doubtful, and Loss and generally apply the same standards when classifying loans.

The reasons asserted in support of adoption of this proposal include a need to reduce split classifications of credits, inconsistencies in the application of credit classifications, and ambiguity in the current system. We do not believe that such widespread deficiencies exist in the current system. We also believe that the current system is well-understood, has served us well for decades, and when correctly applied accomplishes more than the proposed system.

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TELEPHONE (334) 242-3452 • FAX (334) 242-3500 OR BUREAU OF LOANS (334) 353-5961

The proposal should be withdrawn. It is flawed in its assumption that split classifications can be reduced by adopting a framework that splits the evaluation of all loans into two tiers. It is itself replete with ambiguities and invites the very inconsistencies which it purports to minimize.

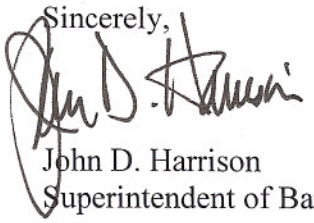
Contrary to the assertions made within the proposal, there is absolutely nothing new in this proposal that isn't already addressed by the current system. The most this proposal will do is require our examination staff to expand its current classification vocabulary from five relatively clear and concise definitions to some eighteen ambiguous definitions. We will then be forced to educate our banks on our interpretations and methods of application and proper use. Adding ratings with different names which are separate and distinct from those used for all other asset categories will cause additional confusion. Tremendous inefficiency will ultimately result from the unnecessary debate over the meanings and application of these new, ambiguous categories.

If adopted, it will replace a well-understood system with a confusing one which will require tremendous resources for implementation and training of loan officers and examiners. The time and effort required to implement the proposed system should be reallocated to issues more pressing to regulators and the industry. Additional training to address inconsistencies (if such inconsistencies actually exist) in the application of the current system would cost far less than implementation of the proposed system. Such costs to implement this proposal amount to an additional imposition of unnecessary regulatory burden. Our discussions with our banks, of all sizes, indicate little support for this proposal for this very reason.

Our department has participated in divided examination programs with both of our federal counterparts for several decades now. These programs have promoted efficiency and effectiveness for our department and the federal agencies. We use the FDIC report format to provide a consistent reporting mechanism to the directors of our banks. We also work very closely with the Federal Reserve Bank of Atlanta in the ongoing examinations of our largest, complex institutions. If the proposed classification system is adopted, we are unsure whether we can continue use of the FDIC examination report format. We also hope that this will not jeopardize our divided examination programs and partnerships with our federal counterparts.

We appreciate your allowing us to comment on this proposal. Again, we believe that the proposal should be withdrawn never to reappear. Please feel free to contact our department should you require any further clarification on this matter.

Sincerely,



John D. Harrison
Superintendent of Banks

JDH:hfr/jwa:ghf