CBA | CONSUMER BANKERS ASSOCIATION

May 29, 2012

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Attention: Comments

Re: Assessments, Large Bank Pricing Definition Revisions Notice of Proposed Rulemaking (Revised Definitions of Higher-Risk Consumer and C&I Loans and Securities); 77 Federal Register 18109 (March 27, 2012); 12 CFR Part 327; RIN 3064–AD92[1]

Mr. Feldman:

Thank you for the opportunity to submit comments on the proposed definitions of "higher-risk" consumer and commercial and industrial loans and securities used in the Large Bank Pricing (LBP) system for assessments by the Federal Deposit Insurance Corporation (FDIC). These comments are submitted on behalf of the Consumer Bankers Association (CBA)[2] and are limited to a single aspect of the proposed rule, the treatment of private educational loans. The absence of comments on any other aspect of the proposed rule should not be interpreted as reflecting either support or opposition to those parts of the proposed rulemaking.

These comments reflect the views of members of the CBA Education Funding Committee, a group of ten financial institutions involved in private education lending. The views reflect consideration of the proposed rule by the Committee and discussions with various members of the FDIC staff over the past year.

CBA thanks the FDIC staff for its willingness to discuss private education loans with the CBA Committee. These discussions have been very helpful to CBA in developing these comments.

CBA believes that the proposed rule does not adequately consider how LBP banks are to treat consumer credit customers with no credit histories or ratings, an issue inherent in private educational loans as well as other forms of consumer credit. In addition, CBA believes applications where at least one signatory has a credit history, would not fall into the "no score" category.

Under the proposal, LBP banks with sufficient "no score" data may expect to develop internal models to evaluate the probability of default (PD) distribution for such consumer credit applicants. However, these PD mappings would, by definition, be based on "originations," not "account

[1] 77 *Federal Register*, March 27, 2012, 18109, www.gpo.gov/fdsys/pkg/FR-2012-03-27/pdf/2012-7268.pdf, hereafter referred to as "the proposal."

[2] The Consumer Bankers Association ("CBA") is the only national financial trade group focused exclusively on retail banking and personal financial services — banking services geared toward consumers and small businesses. As the recognized voice on retail banking issues, CBA provides leadership, education, research, and federal representation for its members. CBA members include the nation's largest bank holding companies as well as regional and super-community banks that collectively hold two-thirds of the total assets of depository institutions.

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management," data, in conflict with the FDIC's proposed PD modeling specifications. To address this issue, the final rule should clarify that this alternative modeling approach is acceptable, subject to the same specifications as other PD estimation models with respect to the estimation period and quantity of observations, and similarly subject to FDIC review.

For LBP banks that do not internally model PDs for credit customers, the default presumption would seem to be that a "no score" credit applicant would be classified as "higher-risk" and in the highest PD band unless and until there is a refinance on the account. Such harsh treatment is unduly severe and would make it harder and more expensive for consumers to obtain student loans and other initial credit.

To address this concern, CBA proposes the addition of the following text to the final rule:

> *Accounts with no credit history are initially to be reported in the highest PD band and as "higher risk." The account may be reevaluated when credit scoring data is established for the consumer for the first time, no later than within a year of establishment. After such reevaluation, the PD band and "higher-risk" status will stand thereafter unless and until there is a refinance of the loan or credit line.*

This language would be inserted on page 18113, second column, in the third full paragraph of that column, after the second sentence, which begins "When an institution acquires a consumer loan or security. . . " The same language would also be included in the discussion of higher-risk consumer loans and securities on page 18121.

LBP banks have indicated that "no-score" credit accounts exist primarily because the consumer has not established a credit history, not because the bank failed to obtain one. Presuming such accounts to be "higher-risk" at the outset is very conservative but generally acceptable to LBP banks if subsequent reevaluation is permitted. This also creates an incentive for the banks to seek or generate scores for the accounts as quickly as possible. Once the consumer borrows, he or she will establish credit and may be appropriately classified for risk purposes. However, it normally takes longer than a quarter to establish a credit tracked by a national credit bureau.

CBA would be happy to provide any additional clarification to these comments that might be helpful to the Corporation as it prepares the final rule. If you have any questions regarding these comments, feel free to contact me at (202) 552-6364 or at pbradshaw@cbanet.org.

Sincerely,

Pace Bradshaw

Pace Bradshaw
Vice President
Consumer Bankers Association

cc: Members, CBA Education Funding Committee