Triune
Appraisal - Collateral Services - Consulting

16915 Napa Street
Suite 201
North Hills, CA 91343
Tel: 805-402-4943
tim@TriuneGFS.com

April 19, 2012

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

Re: Joint Proposed Guidance: Proposed Guidance on Leveraged Lending

Dear Mr. Feldman:

We thank you for the opportunity to comment on the proposed guidance.

Banking has changed beyond imagination in the past few years and the rate of change seems to strain credulity. As an example, between December 2010 and 2011, the Quarterly Banking Profile shows deposits are up about just over eight percent while total assets rose just over a modest four percent. Banks are meeting now to discuss the excess funds and how to cope with eroding profits. In a recent discussion with big bank clients, the cost of deposits can exceed four percent and is being viewed as unsustainable. Add to the mix the scope of the Financial Reform Bill, Volker, etc., and this industry becomes jumbled.

As of December 2011, commercial lending is just under ten percent of total assets. Yet over the past year and a half it has received an inordinate amount of attention. There have been endless streams of meetings, etc. One result was that some banks have been supporting what can only be described as kindergarten legislation; H.R. 3461 and the related S2160.

The bills ask for an advocate in addition to the existing appeals process. It is possible there could be some merit to this. Next is the idea to prevent Regulators from downgrading loans based on the deterioration of collateral. This is where the bills crumble, as should any informed, intelligent backing. Supporters fail to realize a simple item. If a bank needs to take over any secured loan, the primary reason stated is due to a deterioration of collateral. Supporters of these bills are trying to legislate Regulators into a corner and create a dangerous hypocritical and dualistic standard. Some banks want to act one way and be treated another?

As an example, banks claim the right to make secured loans and consider themselves \`experts'. The proposed bill states that no new appraisals are needed unless new funds are advanced. What are new funds? Would this be as simple as advances on a line of credit?

Point (a)(4) of EXAMINATION STANDARDS section states;

> *"(4) in classifying a commercial loan in which there has been deterioration in collateral value, the amount to be classified shall be the portion of the deficiency relating to the decline in collateral value and repayment capacity of the borrower."*

How does one know what amount to classify if there is no appraisal? If no appraisals are needed, why not just simplify and do away with the security interest altogether?

I apologize. Kindergarteners everywhere are insulted by elevating this to the level of kindergarten legislation.

As one might expect, Regulators have a joint response, and hence the topic of this letter.

After reading the proposal, one thought tended to repeat. The guidance seems to have been written with a very high level understanding of banking; say of the 50,000 foot level. This is the viewpoint one may adopt from reading Call Reports. One of the greatest flaws of Call Reports is they are so summarized that one will never get an understanding of the execution of banking "at the street level".

For example, the average big box bank does not have a single commercial lending unit, group, or division. Rather, there may be a corporate banking unit, several business credit units and in some cases, a factor. This structure can represent the entire spectrum of commercial lending. These units can be unique, discrete, and autonomous.

Each of these units will have a unique marketing plan, target market, executive staff and risk footprint. By risk footprint it is meant parameters such as; liquidity, leverage, Cash-Flow coverage, debt coverage, EBITDA, etc.

The proposal seems to start by building a case that recent increases of commercial loans have an increased risk element, perhaps as covenant light. Then based upon this premise it builds a desired guidance. For example there is a discussion of a Risk Framework. Most of the writer's client base have this in place now. The marketing staff could not develop prospects without such information. There is no doubt that subsequent comments will offer lengthy discussions on each point. Again, rather than doing so, the writer will here, step back and consider the Proposed Guidance from the 50,000 foot level.

The writer has been retained by a big box bank to cross the country and provide due diligence services, such as mentioned in the proposal. This is a modest loan, about $15,000,000. The writer was retained and sent extensive information on the prospect. This company is courted by one of several business credit units within an average big box bank. While not a large loan, it does contain traded commodities. We have just received not only the standard bank write-up and documentation, but a secondary 15 page supplement on risks associated with the commodities. Even the most conservative observer would concede the information received, and preparation by the big box bank prior to approving the loan meets virtually all of the Risk Management Framework points.

Under the heading of Define Leveraged Finance is the second bullet point.

- Transactions where the borrower's Total Debt/EBITDA (earnings before interest, taxes, depreciation, and amortization) or Senior Debt/EBITDA exceed 4.0X EBITDA or 3.0X EBITDA, respectively, or other defined levels appropriate to the industry or sector.

On the surface, one might say a single metric should not be an excessive burden to a bank. Yet which of the separate, unique, or distinct entities should this be applicable toward? Perhaps apply this to the corporate bank or the business credit? If one takes a standard acceptable to a corporate bank and forces it over a business credit, the result would be an uncompetitive and shuttered business credit! This is why our comment was made that the proposal seems to be "from the 50,000 level". There seems to be a desire to have a single document covering all the requested points, per bank. The writer has sat with relationship managers or presidents and has discussed these points. The information **does** exist on a unit or divisional level.

One other bullet point within the document is as follows.

- A definition of leveraged finance that facilitates consistent application across all business lines.

Again, on the surface, this seems to be a simple request, but does this apply to one of the lines or all C&I units in total. It is important to again state that commercial banking is not a single division, homogenous in nature. Without such an understanding, an innocent request (as cited above) could have disastrous consequences.

If there is a feeling of an erosion of sound business practices, such cannot be limited from the top down. Goldman is unique and separate from Citi or City National. One recourse would be to review Regulatory practices and have Regulator Examiners change examination practices. This might be a good case of Regulate rather than Legislate.

Banking has an opportunity here. That is to rise to the occasion and demonstrate whether or practices are sound. This would be through solid due diligence.

Of late, there has been some stress in the bank/Regulator relations. Perhaps the time is right to revisit the entire paradigm. Perhaps a third party could shed more light and offer solutions.

Thank you for your time and if there are any questions, please feel free to contact me.

Sincerely,

Timothy Alexander
Managing Director
Triune
tim@triunegfs.com
www.triunegfs.com
805/402-4943