June 8, 2012

Office of the Comptroller of the Currency
250 E Street, SW., Mail Stop 2-3
Washington, DC 20219

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

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.
Washington, DC 20551

BY ELECTRONIC SUBMISSION

RE: Proposed Leveraged Lending Guidance (Docket Nos. OCC-2011-0028 and OP-1439)

Overview

Pacific Coast Bankers' Bancshares[1] ("Bancshares") appreciates the opportunity to provide comments to the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (collectively known as the "Agencies") concerning the Proposed Guidance on Leveraged Lending ("Proposed Guidance").

Bancshares agrees with the Agencies' comments that, "Leveraged finance is an important type of financing for the economy."[2] Today, the leveraged finance market is comprised of firms that originate and syndicate transactions (primarily large commercial banks) and investors (large commercial banks, insurance companies, etc.). However, even community banks[3] have booked transactions originated and distributed through this channel.

During the years leading up to the financial crisis, community banks generally became over-reliant on commercial real estate and construction lending activities as a primary driver to growth in their loan portfolios. This over-reliance caused various concentration issues within these banks' loan portfolios. Since that time, community banks have continued to reduce their holdings in these loan types while at the same time struggling to book loans with the same or better quality. Leveraged lending transactions can be a suitable alternative to commercial real estate and construction loans by creating needed earning assets while at the same time creating better diversification within their loan portfolios.

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[1] Bancshares, through its wholly owned subsidiaries, Pacific Coast Bankers' Bank ("PCBB") and PCBB Capital Markets, LLC, provides correspondent banking services to over 500 community banks and savings associations (together "community banks") throughout the United States. Through its subsidiaries, Bancshares offers a range of services that assist community banks in managing risk and improving performance; one such service that Banschares offers to its community bank clients affords them the opportunity to purchase loan transactions originated in the syndicated loan market.

[2] Joint Press Release, March 26, 2012.

[3] Bank with assets up to $2 billion are the focus of this comment letter.

Bancshares also agrees with the Agencies that sound risk management practices are critical to undertaking any risk. However, Bancshares respectfully requests that the Agencies consider the following comments prior to finalizing the Proposed Guidance.

A percentage of capital should be used in establishing whether a bank has significant leveraged finance activities.

The Proposed Guidance emphasizes the need for a robust risk management framework if a bank has "significant" leveraged lending activities. Failure to have such a risk management framework in place could result in severe regulatory scrutiny. However, the term "significant" is not clarified. Without clarification, Bancshares is concerned that the term would be inconsistently applied among different regulators conducting examinations at different community banks across the U.S. Using a percentage of capital as a way of clarifying the word "significant" would simplify the meaning of the Proposed Guidance for regulators applying it and for bankers understanding whether it applies to their institution. Bancshares believes that community banks that prudently lend up to 100% of their capital (Tier 1 + ALLL) to leveraged borrowers should be deemed to be engaged in insignificant leveraged finance activities.

An exemption for community banks that have an insignificant amount of leveraged financing transactions should be created.

As mentioned in the Proposed Guidance, there are a limited number of community and smaller institutions that have leveraged lending activities. However, the Proposed Guidance would require any community bank that has even one leveraged transaction to discuss the "implementation of cost-effective controls" with their primary regulator. Bancshares acknowledges that it is critical for all community banks to maintain an open dialogue with their primary regulator on topics pertaining to proper controls. However, Bancshares' has concern over the unintended consequences that may arise from this portion of the Proposed Guidance – namely, that when individually approached by community banks that have insignificant leveraged lending activities, regulators may, by default, require these community banks to implement the robust risk management framework outlined on the Proposed Guidance.

In summary, Bancshares believes a robust risk management framework is important for banks that have significant leveraged lending activities. However, if the term "significant" is not clarified, community banks that have insignificant leveraged finance activities may still be required to follow the same risk management framework required for banks that have much higher levels of leveraged financing. If a de facto, one-size-fits-all risk management framework is created through the Proposed Guidance, some community banks could be deprived from booking earning assets at a time when they are needed most.

Regards,

Steven A. Brown
President & Chief Executive Officer
Pacific Coast Bankers' Bancshares