1ST FAB&T
Member FDIC

Larry T. Wilson
Chairman,
President and
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Federal Deposit Insurance Corporation
RIN 3064-ZA08

Request for Information on Application of the Uniform Financial Institutions Rating System

Dear Sirs/Madams:

First Arkansas Bank & Trust is a state-chartered and FDIC insured commercial bank located in Jacksonville, Arkansas and has just recently celebrated our 70th Anniversary. We have maintained a very healthy relationship with our regulators over those 70 years and expect to continue that practice going forward.

I have some very strong opinions on the CAMELS rating system and welcome the opportunity to express my thoughts on that subject. My main concerns with the rating system are as follows:

The current rating system utilizes a scale of "1" to "5". Such a limited scale creates several issues. First, only two of the ratings are considered to be 'good'…a "1" or a "2" rating. There are then three ratings that are considered 'not good'. Having more 'bad' ratings than 'good' ratings contributes to the notion long held by bankers that the regulators are more focused on the 'negatives' when examining banks than on the 'positives'. Certainly, it is the responsibility of the examiners to find problems within the bank that increase the bank's risk profile. It has been my experience over the past 48 years of my career that there is tendency for examiners to over-emphasize whatever 'negatives' they may encounter in an examination. Because it is the job of the examiners to assess the bank's risk profile, it is only natural for the examiner-in-charge to be conservative in their ratings. No examiner wants a bank to fail, especially a bank that the examiner had rated as something other than one of the 'bad' ratings.

This current rating system makes it more difficult for an examiner to rate a bank as an overall "1", even though the bank would be rated as a "1" in the majority of the individual ratings…simply because the bank was rated as a "2" in some of the individual areas. The same is true for a "2" rating if there were areas that were rated as a "3" during the exam. If there was a wider scale (with seven possible ratings) the ratings themselves would be much more meaningful. Four of those ratings could be considered as "good". Such a scale could be achieved by simply adding ratings of "2 plus" and "2 minus". Under the current scale, if a bank is rated a "2", it is not possible to determine if the bank is almost a "1" or almost a "3" rated bank. There should be a method for differentiating such a situation because there is significant difference in the risk profiles of banks that are almost a "1" and those that are almost a "3".

With a larger scale, examiners will have ratings that will more accurately reflect the appropriate risk profile that should be applied to each bank. For instance, if an examiner is faced with making an overall rating for a bank and is torn between assigning a rating of a "1" or a "2", he or she may assign a rating of "2 plus". Such a rating would be much more descriptive of the actual condition of the bank, rather than a "2" rating (which could mean that the bank almost earned a "3" rating under the present scale).

A larger scale, such as the one I have suggested, will more accurately reflect the appropriate risk profile of the bank being examined and should lead to more appropriate insurance premiums (assessments). If our bank were to receive a "2" rating when it was almost a "1" rated bank, we should not pay the same level of assessments to the insurance fund that a bank which had received a "2" rating when it was almost worthy of a "3" rating. Common sense tells us that there should be a significant difference in the inherent risks (and, therefore, assessments) of a bank that is almost a "3" rated bank and one that is almost a "1" rated bank.

I know that "we've always done it this way" and that the current scale "has served us well for many years" but, since the FDIC assessments are based on the bank ratings, there are monetary implications in place that should necessitate a more accurate method of assessing "premiums" to be paid into the insurance fund. Who can argue that the safer banks should pay the lowest premiums and that the riskier banks should pay higher premiums?

I know that the regulators have guidelines in place to assist examiners in assigning ratings to banks which they are examining. We all know that there are still many subjective factors that go into the examiner's rating of a bank. What is the bank's attitude towards examinations? Is the bank making an honest and concerted effort to "play by the rules" or is it making a perfunctory effort indicating that it will grudgingly follow most of the rules? With the limited scale currently in place, both banks may receive a "2" rating. However, with a broader scale in place, such as the one suggested above, an examiner may 'reward' the bank that is making an honest effort to "play by the rules" by assigning that bank a rating of "2 plus" and assign the bank that is not making a reasonable effort to do so a "2 minus" rating.

In addition, there will always be some "rater differences", no matter how well the definitions for the different ratings are spelled out, they can be interpreted differently by different examiners. With a broader scale, more consistency should be the result because the ranges within any rating on the scale should not be as broad.

In summary, the current scale is simply past its time. It does not give the examiners the needed flexibility in rating the banks that they examine, does not always accurately reflect the appropriate risk to the Bank Insurance Fund, and does not always assign appropriate assessments to the banks which are paying into the BIF. A broader scale, such as the one I suggested, will address each of those issues.

Thank you for your consideration of my comments on this issue.

Sincerely,

[redacted]

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American Bankers Association

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