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Sent Via Electronic Delivery: regs.comments@federalreserve.gov & Comments@fdic.gov

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Federal Reserve System
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Robert E. Feldman, Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Re: Request for Information on the Application of the Uniform Financial Institutions Rating System (Docket No. OP-1681; RIN 3064-ZA08)

To Whom It May Concern:

On behalf of the Oregon Bankers Association ("OBA") and our memberships of state and nationally-chartered banks, we appreciate the opportunity to comment on the above-referenced Request for Information ("RFI") regarding the Application of the Uniform Financial Institutions Rating System. We applaud the Federal Reserve and the FDIC (collectively "Agencies") for issuing this RFI and its willingness to consider the consistency of ratings under the Uniform Financial Institutions Rating System, also known as the CAMELS rating, as well as the Agencies' use of the CAMELS ratings in their bank application and enforcement action process. We urge the Agencies to consider the following feedback.

Comments

As a general matter, we received feedback from some of our member banks that the CAMELS system needs to be more quantitative, objective and transparent in nature. Sentiment was expressed that too often the CAMELS system is overly subjective and opaque. While flexibility is important, that flexibility must be balanced against the need for transparency and a certain amount of predictability.

It is also a fairly common view that examiners enter a bank with a composite rating already in mind and, even if an exam is overall very positive, there is little interest in upgrading a bank accordingly. Whether this is in fact true or not, the perception exists. Additionally, many banks have expressed concern that the management component is a "catchall" for anything and everything that doesn't warrant a downgrade in another component of the CAMELS system.

The following specific comments and suggestions received from banks highlight these general themes:

- The current evaluation process lacks transparency in the assignment of ratings. Most of the component ratings can be derived from financial metrics; however, this is not always done.

- All of the Agencies should use more objectivity in its application of ratings. We understand that the OCC has financial metrics associated with each CAMELS component area. For example, the Capital component may receive a 1 rating if the Tier 1 leverage ratio is above 13%, a 2 rating if the ratio falls between 10 – 13%, etc. Others regulators, however, have made these ratings more subjective in some cases. This limits transparency and consistency among exam teams, agencies and institutions, and it hinders the ability for institutions to perform self-evaluations between exam cycles.

- There are scenarios in which a bank could be assigned an overall satisfactory rating but would not be afforded an 18-month examination cycle if its management component rating is deemed unsatisfactory. All satisfactorily rated banks should receive an 18-month exam cycle regardless of individual component ratings.

- CAMELS ratings should be quantitatively determined, including the management component. Why should a bank receive a 3 management rating if every other component of the CAMELS rating system is a 1 or 2? A bank shouldn't be downgraded to a 3 in management simply due to compliance issue unless the bank has experienced substantial losses or consequences that impacted other components like capital adequacy, asset quality, liquidity or earnings. The management component should not be utilized as some form of a catchall.

- With respect to the composite rating, it seems the component ratings do not have a clear, consistent weighting assigned to each. If examiners have the power to weight criteria and components differently, there should be transparency in how this is done.

- The expectations behind the CAMELS rating should be communicated in advance. Any changes in expectations should be reasoned and clear. Steps should be taken to ensure that banks are not surprised or penalized by changes in supervisory expectations.

Conclusion

We reiterate our appreciation to the Agencies for advancing this RFI. Steps that can be taken to increase transparency and decrease subjectivity would greatly increase the confidence in and reliability of the CAMELS rating system, which has otherwise served the banking industry well. We would also encourage the Agencies to review the CAMELS system to ensure that it takes into consideration modern banking, regulations, and a diverse range of business models.

If you have any questions, please feel free to contact me.

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Very best regards,

[redacted]

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