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September 25, 2013

Via E-Mail: regs.comments@occ.treas.gov
Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW., Suite 3E-218
Mail Stop 9W-11
Washington, DC 20219

Via E-Mail: regs.comments@federalreserve.gov
Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Via E-Mail: comments@FDIC.gov
Robert E. Feldman, Executive Secretary,
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW.
Washington, DC 20429

RE:

OCC:
Docket ID OCG2013-0013
Title: Proposed Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of more than $10 Billion but less than $50 Billion

FRB:
Docket No. OP-1461, "Proposed Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of more than $10 Billion but less than $50 Billion,"

FDIC:
Title: Proposed Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of more than $10 Billion but less than $50 Billion

To Whom It May Concern:

Trepp welcomes the opportunity to comment on the proposed guidance on stress testing. Trepp is a data and analytics provider, serving the banking, CMBS and commercial real estate markets. Our Trepp Capital Adequacy Stress Test (T-CAST) module enables banks to forecast earnings and capital under multiple scenarios, including the Severely Adverse, Adverse and Baseline scenarios, as well as custom-defined scenarios.

We believe that stress testing is a valuable tool for modeling capital adequacy and ensuring the health of both individual institutions and the banking system overall. We are pleased to see that the proposed Guidance addresses many issues faced by banks in performing capital adequacy stress testing.

We respectfully submit the following comments:

1) The agencies' questions on page 11.

Question 1: What challenges do companies expect in relating the national variables in the scenarios to regional and local market footprints?

Comment: Most banks in the $10 to $50 billion size range will be challenged to develop their own set of local/regional economic and market variables. Most banks in this size range will not have their own internal economics group and thus will not have the experience or knowledge to produce regionalized scenario variables on their own. Furthermore, banks will be concerned about using a set of economic inputs that are not sourced from the regulators.

Question 2: What additional clarity might be needed regarding the appropriate use of historical experience in the loss, revenue, balance sheet, and risk-weighted asset estimation process?

Comment: In forecasting the balance sheet and risk-weighted assets, for some banks we have seen a decline in the asset base result in comparatively better capital ratios than in the base case, where asset growth is positive. At the same time, banks are being told that their stress scenario capital ratios should be lower than the baseline. This seems logical, but it can be difficult to get scenario-driven asset forecasts to line up with that expectation. Perhaps some additional guidance about assumptions or overrides would be warranted, to get the necessary asset forecasts that would be consistent with lower stressed capital ratios.

Question 3: What additional clarity should the guidance provide about the use of vendor or other third-party products and services that companies might choose to employ for DFA stress tests?

Comment: We would appreciate more guidance on the topic of using third-party products and services, especially with regards to model risk management and validation. We have received questions from our clients about getting third-party validation of our models and tools. In addition, we have endeavored to provide our clients with sufficient detail and insight into our proprietary models, however, clearer guidance around this issue would be greatly appreciated. The guidance seems to allow for the use of third-party tools where the bank does not know the exact algorithms behind the tools, and yet banks are expected to apply their model risk policies and practices to the use of vendor products.

Question 4: How could the proposed guidance be clearer about the manner in which the required capital action assumptions between holding companies and banks differ, and how those different assumptions should be reconciled within a consolidated organization?

Comment: We would expect there to be somewhat more flexibility for the holding companies' capital actions in the forecasts. For example, requiring the forecasted dividends to equal the average of the trailing four quarters would either under- or over-state dividends if there had been a recent increase of decrease. We typically use the most recent quarterly dividend throughout the forecasts, but also allow for flexibility in the forecasts. A certain degree of flexibility in the forecast capital actions would also enhance the usefulness of stress testing as a business planning tool and make it more actionable.

2) DFA stress tests may not necessarily capture a company's full range of risks, pages 17-18.

   Comment: Stress test results are expected to be comprehensive, which would seem to imply capturing the company's range of risks. While we recognize that economic scenario-based forecasting models might not capture potential risks/outcome, we would like to see more clarity around the issue of integrating other analyses or forecasts into a comprehensive set of results for DFA stress testing.

3) Management responses, page 23.

   Comment: It is not clear how far management responses should be taken and still be conservative. Perhaps some more examples would help.

4) Model Risk Management - challenge models, page 26-27.

   Comment: We agree that challenge models can be very useful, but we would like to see some additional guidance on the topic.

5) Different modeling techniques, especially for Baseline, page 29.

   Comment: we expect many companies will be challenged to get the Baseline scenario to match their own internal Baseline projections. The guidance seems to imply that the DFA Baseline should be the same as the internal Baseline, and at the same time be conditioned on the Baseline Scenario macro inputs. Does this mean that the company should be doing its own internal Baseline projections using the DFA Baseline Scenario inputs?

6) Operational Losses, page 35.

   Comment: We agree that operational losses should be included in DFA stress testing results. However, operational losses (like litigation expenses) might not be based on the economic scenario, but rather on the idea of an "adverse" outcome for the bank. Perhaps there should be some greater flexibility or more guidance on both the estimation of operational losses and the use of those estimates within DFA stress testing.

7) References to larger and more sophisticated companies, throughout the document.

   Comment: This is vague. There could be clearer delineations of what a larger or more sophisticated bank would mean.

Thank you for the opportunity to comment on the Proposed Stress Testing Guidance. Should there be any questions concerning the comments above, please contact Matthew Anderson, Managing Director at (212) 329-6188 or via email at matthew_anderson@trepp.com .

Trepp, LLC
September 25, 2013