American Bankers Association
Building Success. Together.

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May 14, 2013

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

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

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

Re: Proposed Reporting Templates for Midsize Banks

Dear Sir or Madam:

The American Bankers Association[1] appreciates the opportunity to comment on the reporting templates for midsize banks and bank holding companies proposed by the OCC, FDIC, and Federal Reserve Board (the Agencies).

Section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) requires certain financial companies to conduct annual stress tests and requires the primary financial regulatory agency of those financial companies to issue regulations implementing the stress test requirements. State nonmember banks, state member banks, state chartered savings associations, national banks, national savings associations, bank holding companies, and savings and loan holding companies are subject to the stress test requirements if their total consolidated assets exceed $10 billion. For the purposes of this letter, entities between $10 billion and $50 billion in assets are referred to as midsize banks.

Under section 165(i)(2), a midsize bank is required to submit to its primary federal regulator a report at such time, in such form, and containing such information as prescribed by the Agencies.

[1] The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $14 trillion banking industry and its 2 million employees. Learn more at www.aba.com.

In October 2012, the Agencies issued final rules implementing the section 165(i)(2) annual stress test requirement. The Agencies have issued the proposed reporting templates to meet the reporting requirements under section 165(i)(2) for midsize banks.

ABA greatly appreciates the high degree of consistency among reporting templates from the different regulatory agencies and hope that this consistency remains in the final versions. However, we do have several concerns, including:

- The level of detail in the proposed reporting templates;
- The absence of an immaterial portfolio exception; and,
- The restrictions on ZIP file submissions.

The Agencies should require banks to submit only aggregate data.

The Agencies' rules detail the elements of the stress testing results required to be reported. With regard to the quantitative data required, the regulations specifically request aggregate losses, pre-provision net revenue, provisions for loan and lease losses, net income, and pro-forma capital ratios. The summary schedule provides for the reporting of this information. However, the industry was not expecting two additional schedules (the Balance Sheet Statement and the Income Statement) that require additional information that is segregated in a format similar to the Call Report.

Many institutions have not developed their systems for stress testing using Call Report segmentation and formatting. These institutions will effectively be required to go through the costly and burdensome process of retooling their systems in a short amount of time in order to comply. There is no "standard" stress testing framework for midsize banks. Each institution is developing its stress testing framework based on that institution's needs, risks, and resources, as conceived of in the statute. As a result, compliance with any detailed segmentation in the proposed reporting templates will be difficult for some institutions. Therefore, we request that the banking agencies only require the aggregate data in the summary schedule.

Additionally, many midsize banks do not have large enough loan populations to create meaningful and effective loss models at the detailed level that the template requires. While we recognize some portfolios have significantly different characteristics, combining some of the similar categories into aggregate reported lines will allow for more meaningful risk pools to develop econometric loss models. As a result, developed models will more closely resemble the potential impacts in different economic scenarios than would be possible with limited populations.

Moreover, we note that the timeframe for the banks to retool their systems in relation to the proposed Balance Sheet Statement and the Income Statement schedules is inadequate. It would take banks at a minimum a year to meet such a requirement, meaning it is not realistic to expect banks to meet a deadline for the first filing of the statements before 2015.

The reporting templates for banks below $50 billion should not require data beyond that required for larger banks.

We appreciate the Agencies' work in differentiating the large bank stress tests from the midsize stress tests. However, we note that the proposed reporting templates require more detailed information in some areas than is currently required of large banks in the Federal Reserve's Y-14A templates. These areas include:

- 1-4 family construction loans
- Net gains (losses) on sales of other real estate owned
- Wholesale troubled debt restructurings
- Loans secured by 1-4 family in foreclosure
- U.S. Government Obligation and Obligations of Government Sponsored Entities

We believe the segmentation for midsize bank reports should never be more detailed than the Y-14A segmentation.

The proposed reporting templates should allow for generalized, bank-developed loss assumptions to be applied to immaterial portfolios.

Large bank holding companies subject to the capital plan rule (banks above $50 billion) have the option either to submit or not submit the relevant data for a given portfolio if that portfolio does not meet a materiality threshold. For these larger institutions, an immaterial portfolio is defined as one that represents less than five percent of Tier 1 capital and constitutes less than $5 billion in balances on average for the preceding four quarters. Banks with immaterial portfolios that elect not to submit the relevant data (schedule submission is optional in these cases) receive a loss rate that is at or near the 75th percentile of projected loss rates for the institutions reporting material portfolios.

We urge the Agencies to develop a similar immaterial portfolio exception for midsize banks. Doing so would reduce the burden related to the proposed reporting templates without undermining the purpose. Specifically, we recommend an immaterial portfolio for a midsize bank to be five percent of tier 1 capital. Unlike larger banks, a midsize bank's immaterial portfolio will likely be unique to that bank or that bank's geographic footprint. As a result, a loss assumption on an industry average would not necessarily be relevant to a midsize bank. Therefore, we urge the Agencies to allow banks with immaterial portfolios to assign a loss rate of their choosing, in consultation with their supervisors, to the portfolio and include the chosen loss rate as part of their disclosures.

ZIP file submissions should be permitted at all banking agencies.

Many midsize banks are subsidiaries of larger bank holding companies that have been submitting data to the agencies as part of the Dodd-Frank large bank stress tests (DFAST). Many large banks and bank holding companies have been submitting zip files for their supporting and model documentation during the large bank stress tests. The proposed reporting templates encourage banks to submit documentation in a non zipped file. Submitting zipped files is easier logistically for many banks, and we encourage the Agencies to permit use of zipped files for midsize banks.

Thank you for considering the concerns raised in this letter. We appreciate the opportunity to share our views and would be happy to discuss them further at your convenience. Given the rapidly approaching proposed submission dates and the significant effort involved in gathering the required data and populating the templates, we would appreciate receiving the final reporting requirements at the banking agencies earliest convenience.

If you have any questions, please contact Hugh C. Carney, Senior Counsel, of the ABA at (202) 663-5324 (e-mail: hcarney@aba.com).

Sincerely,

Hugh C Carney

Hugh C. Carney
Senior Counsel II

Appendix A: General requests for clarification.

Summary Schedule' Tab, Item 9: On the "Results Template" file under the 'Summary Schedule' tab, item 9, cell H17 (for 9/30 Tier 1 Common equity ratio) has an odd reference which makes the data undefined. The referenced calculation reads (=H30='Adverse – Bal Sheet and Cap'!H88). We believe it should read (='Base – Bal Sheet and Cap'!H88), as indeed future projections of this line item seem to follow this reference logic. Oddly the Fed template has this reference blank.

Scenario Tabs: On the "Results Template" file under all the scenario tabs (Base, Adverse & Severe) item number 68 'Total risk-based capital ratio' for all quarters seems to divide item 63 by 62 (Total capital/ Risk-weighted assets), while the language included in the Call Report items (columns C, F, G) seems to suggest it should be item 63 by 61 (Total risk-based capital/ Risk-weighted assets). The latter would be a more commonly understood ratio as well.

Allowance for Unfunded Credit Commitments: It is unclear if this item is not being required (it is required in the Y-14A template) or if this input is embedded somewhere in the template.

Income Statement Tab. It appears the income statement tabs are not including taxes in the net income formula. We would appreciate clarification on the treatment of taxes.