



DALE L. LEIGHTY
Chairman
DAVID HAYES
Chairman-Elect
TERRY JORDE
Vice Chairman
AYDEN R. LEE JR.
Treasurer
GEORGE G. ANDREWS
Secretary
C.R. CLOUTIER
Immediate Past Chairman

CAMDEN R. FINE
President and CEO

September 20, 2004

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

Re: Bank Holding Company Rating System: Docket No. OP-1207

Dear Ms. Johnson:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to comment on a new Bank Holding Company (BHC) rating system proposed by the Federal Reserve.

Background and Summary of Proposal

The current BHC rating system is a management information and supervisory tool that defines the condition of BHCs. Known as BOPEC/F-M, the BHC rating provides a summary evaluation of the BHC's condition for use by the supervisory community and provides the basis for supervisors' discussion of the firm's condition with BHC management.

Since the BOPEC/F-M rating system was adopted 25 years ago, the banking industry has become increasingly concentrated and complex. This increased complexity and concern about the concentration of banking assets has prompted a fundamental shift in supervisory focus away from historical financial analyses toward more forward-looking assessments of risk management and financial factors. Commencing in 1996 with the implementation of SR 95-51², the Federal Reserve has assigned a formal supervisory rating to the adequacy of risk management processes at all BHCs, although

¹ The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to protecting the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace. For more information, visit ICBA's website at www.icba.org.

² Supervisory Letter 95-51, *Rating the Adequacy of Risk Management Processes and Internal Controls at State Members Banks and Bank Holding Companies*

ICBA: *The Nation's Voice for Community Banks*SM

that rating remains separate from the BOPEC/F-M rating system. During the past eight years, the focus of the Federal Reserve's examination program for BHCs has increasingly centered on a comprehensive review of financial risk and the adequacy of risk management. However, the BOPEC/F-M rating system has not been updated to facilitate a broader assessment of financial risk or to emphasize risk management, reducing the significance of supervisory information conveyed by the rating.

To better align the assessment process for BHCs with current supervisory practices and to emphasize risk management, the Federal Reserve is proposing a revised rating system for BHCs. As under the current BHC rating system, all BHCs would be assigned a rating under the new system, although they would be subject to different degrees of supervisory scrutiny depending on their size and complexity, the significance of their depository subsidiaries, and other factors. The new system will be displayed as **RFI/C(D)**. The **R** in the formula will represent risk management, the **F** will represent financial condition, the **I** will represent the impact of the parent company and nondepository subsidiaries on the subsidiary depository institutions, the **C** is the composite rating and the **(D)** will mirror the primary regulator's assessment of the subsidiary depository institutions.

ICBA's Position

We agree with the Federal Reserve that the increasing concentration of banking assets in the United States and the increasing complexity of banking activities requires a shift in supervisory focus away from historical financial analyses toward more forward-looking assessments of risk management and financial factors. The new rating system is a reasonable way to align the assessment process with current supervisory practices and to provide a more comprehensive framework for assessing risk management.

We would urge the Federal Reserve to continue its practice of assigning only an **R** and **C** rating for companies in the shell BHC program. These companies should be assessed differently from complex BHCs since they don't pose the same risk to the banking system. Even for noncomplex, one-bank holding companies with assets greater than \$1 billion, the examination staff should continue to rely heavily on information and analysis contained in the report of examination for the subsidiary banks to assign the **R** and **F** ratings. These ratings should not require a substantial amount of additional review and analysis on the part of the examiners apart from an analysis of the exam reports of the subsidiary banks.

Conclusion

ICBA has no objections to the new BHC rating system proposed by the Federal Reserve. However, we urge the Federal Reserve to continue its small shell BHC inspection program and to continue its policy of assessing noncomplex BHCs differently from complex BHCs.

If you have questions or need any additional information, please do not hesitate to contact me at 202-659-8111 or at Chris.Cole@icba.org.

Sincerely,

Christopher Cole

Christopher Cole
Regulatory Counsel