

From: "PREUIT MAULDIN" <PMAULDIN@BIBANK.COM> on 06/30/2005 02:35:48 PM

Subject: Classification of Commercial Credit Exposures

MEMO TO: Federal Reserve Board

FROM: Jo Anne P. Beck, Senior Vice President
Credit Administration, Bank Independent.
Sheffield, Alabama

DATE: June 26, 2005

RE: Interagency Proposal on the Classification of
Commercial Credit Exposures, Federal Register/Vol. 70/ No.
58/3-28-2005

Docket Number OP-1227

I am encouraged by the stated purpose of the agencies proposed two-dimensional rating framework for commercial credits that considers a borrower's capacity to meet its debt obligations separately from each loan (facility) to that borrower. As we all know characteristics that influence loss severity will vary depending on collateral values, guarantors, etc. attached to each loan. Indeed, I believe that many of the credits that our bank is currently carrying in the "Special Mention" and "Substandard" classifications would, because of the high collateral value, be rated "Pass" under the proposed system.

The term "default" already has a specific meaning ("The failure to fulfill a legal obligation or duty, such as neglecting to pay back a loan on schedule.") in the banking industry and should not be used

with a different meaning as a part of a loan rating system. It is quite possible that under the proposed framework for a loan that is not legally in default to be classified as default. The continued use of the term “Doubtful” would probably be more appropriate since the definitions as stated in the Federal Register are quite similar.

I have some concern that the proposal would require separate rating systems for consumer loans and commercial loans. The change over to the proposed system will be complicated enough without the added burden of maintaining two separate grading systems. I would think this would also be burdensome for examiners in reviewing the bank’s entire loan portfolio.