From: Jill D. Cook

Subject: Classification of Commercial Credit Exposures

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Proposal: Interagency Proposal on the Classification of Commercial Credit Exposures
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Comments:

@@@DEPARTMENT OF THE TREASURY Office of the Comptroller of the Currency [Docket No. 05-08]
FEDERAL RESERVE SYSTEM [Docket No. OP-1227]
Interagency Proposal on the Classification of Commercial Credit Exposures

Dear Sirs or Madams:

We believe that this proposal in its current form lacks sufficient definitional guidance and would not differentiate risk in a uniform manner. Without additional refinements this would lead to inconsistent application throughout the banking system.
Implementation of this proposal will produce costs for community based banks that far outweigh the benefits of the proposed classification scenario.

Although we appreciate the Agencies' efforts to improve risk assessments, we are concerned that the proposed framework could be both labor-intensive and costly to implement for most banks. In addition to the necessary training costs, banks would need to invest large sums in new software or upgraded existing software.

As a community bank of 44 years, our credit administration systems are well defined and have proven to be effective. To change our grading system and methodology would be costly, time consuming, wasteful and distracting from what we have learned about the five "Cs" of credit over the past 44 years. It will require the rewriting of loan policy and procedures, rewriting allowance for loan loss adequacy methodology, rewriting of loan administration and collection procedures, and retraining of management and staff in order to implement the changes. The methodology for analysis of the adequacy of the reserve for loans and lease losses will need to be enhanced considerably to conform to the proposed classification of commercial credit exposures.

The Agencies suggest that the new classification system would be applied to all banks, irrespective of size, and would more accurately measure a bank's credit risk exposure. We believe the resultant ratings created from the proposal are no more clear and reasonable than the ratings generated by the current system. Under the current classification system, lenders, examiners and loan reviewers already analyze credits by looking at all of the factors considered in the proposed system.

Community based institutions already bear an excessive amount of regulatory burden imposed by inappropriate and irrelevant federal regulation with ever-changing and ever-increasing compliance requirements with increasing resources devoted to compliance systems and compliance specialists that are resources that could be devoted to developing business and improving service.

We urge the Agencies to further examine the ramifications of their proposal. The timing of this proposal in light of the significant resources currently associated with Basel II and the Sarbanes-Oxley initiatives creates an undue financial burden on the banking system. A better approach would be to permit the Basel II compliant banks to develop those credit parameters from that system and analyze their subsequent performance in assigning credits to the various asset quality ratings. Subsequent alternative approaches could be developed from the study of that data.

Respectfully Submitted,
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