

June 20, 2005

Robert E. Feldman, Executive Secretary  
Federal Deposit Insurance Corporation

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve

Dear Mr. Feldman and Ms. Johnson:

The Interagency Proposal on the Classification of Commercial Credit Exposures is inappropriate for our Iowa state chartered bank. While it is possible to implement this classification scheme in all sizes of institutions, the benefit for small and medium size institutions seems negligible. Our loan officers, senior credit administrators, and senior bank managers are very familiar with classified credits and are able to analyze both the borrower and collateral using the current system. Iowa Division of Banking examiners discuss classified credits with loan officers and bank managers and have been satisfied that the banks have a consistent record of accurately identifying loss exposure.

Implementation of this proposal will produce costs for small and medium sized banks that far outweigh the benefits of the proposed classification scheme. Our bank has a loan watch list that conforms to the current classification system. Implementation of the proposal will require us to retool our internal rating systems, credit review, and internal reporting systems. We find that the credit rating, review, and internal reporting systems currently used by our bank adequately identify credit exposure. Complete retooling of these systems is unnecessary and a waste of resources.

The retooling of our bank's credit administration systems will include rewriting loan policy and procedures, rewriting allowance for loan loss adequacy methodology, rewriting of loan administration and collection procedures, and retraining of personnel to implement the changes. Loan policy will need to be changed to address all of the new terms and nuances generated by the proposal. The methodology for analysis of the adequacy of the reserve for loans and lease losses will need to be changed to conform to the proposed classification of commercial credit exposures. At the same time all these additions to policy and procedures are to be added, the old system of analysis, classification and reporting must be retained for real estate, consumer and other non-commercial extensions of credit.

I urge the Agencies to refrain from implementing this proposal. If it is implemented, I urge the Agencies to restrict it to large complex banking organizations. Small and medium sized institutions already bear an excessive amount of regulatory burden imposed by inappropriate and irrelevant federal regulation. There is no valid reason to impose a new commercial loan classification system on small and medium sized banks.

Sincerely,

Thomas D. Soenksen  
President  
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