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Subject: Stress Testing Guidance

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Comments:

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Proposal: Proposed Guidance on Stress Testing for Banking Organizations with more than \$10 Billion in Total Consolidated Assets

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Comments:

It is imperative the "Proposed Guidance on Stress Testing for Banking Organizations" includes loan level stress testing within the guidance. There are two major forms of Stress Testing within a banking environment. One is at the balance sheet level and the other is at the loan level. The two go hand in hand to properly stress test a bank's soundness. If the guidance falls short of only covering the balance sheet visibility without providing loan level visibility into the banks health, then the guidance will fall well short of the objective. A majority of any banks risk is within the loan portfolio which includes the major complex credits (C&I, CRE, Agriculture, and small business) along with consumer and mortgage loans. The guidance should include stress testing criteria for each loan category which then feeds into the balance sheet level of stress testing results. This should also include feeding into the allowance for loan and lease loss (ALLL) calculation required by each bank. Today there is little or no loan level stress testing taking place within banks. Examiners are not clear how to consult banks in this area and require guidance from the Federal Reserve Board. Many of the issues associated with the credit crisis are around this topic. Bankers have traditionally been reactive to problems around loans that are currently active. If one looks at recent bank failures a majority of them were associated with Real Estate loans, not mortgage. If proper stress testing guidance is formed at the federal level, this will provide banks the tools to become proactive with their loan portfolios during the life of each loan. They could monitor borderline loans and catch many before they migrate to an impaired status. This would significantly reduce bank failures, bad loans, and overall improve the relationship between examiner and banker for the future. Providing guidance for stress testing at the loan level might be the single most important guidance the Federal Reserve Board could provide banks in the future.