

**From:** Paula.Wix@Firstmidwest.com on 06/29/2005 04:17:07 PM

**Subject:** Classification of Commercial Credit Exposures

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Via:

Web: [www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm](http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm)

E-mail: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

First Midwest Bank (Bank) appreciates the opportunity to respond to the changes proposed by the regulators. The Bank is a \$6.9B regional banking institution headquartered in Itasca, Illinois.

The proposal subject to comment is Docket No. OP-1227. The proposal suggests that the Risk Rating terminology for Criticized and Classified Assets be changed. The current terminology of OAEM, Substandard, Doubtful and Loss would become Weak, Marginal, Default and Loss. In addition to the change in terminology, the proposal suggests a second tier of risk assessment based on loss exposure, or ability to collect, identified as a Facility Rating. The Facility Rating would be termed Remote, Low, Moderate or Loss. There are further specifications for loans monitored as true asset-based credit.

We believe that the proposals of Docket OP-1227 have merit as they would more correctly identify the collateral support as well as the financial capacity of a borrower. However the proposals do warrant consideration of a number of adjustments or clarifications, to wit:

1. The thresholds, or range percentages, recommended for the Facility Ratings are too narrow. For example, the "Remote" risk of loss at 0% would effectively eliminate use of "Remote" as a facility rating, unless secured by cash collateral. Conversely, a "High" risk of loss at 30% is too inclusive.
2. The proposed "Weak" category should permit expanded use of "Low" or "Moderate" loss characteristics.
3. The proposal to allow guarantor support to contribute to the Facility Rating is reasonable but requires clarification. The clarification should include how the stronger of the borrower or the guarantor may apply to the credit Risk Rating.
4. The illustrative examples provided should be expanded. In comparison of several examples, the ease or difficulty to collect has more impact than the actual exposure.
5. The proposal should address the impact of cross-defaulted and cross-secured positions on the Facility Rating.
6. The application of "Remote" for the use of split ratings is too restrictive and does not allow for the contribution of cash flow to a

portion of a credit.

7. The trend over the past fifteen years has been to emphasize cash flow in lending. With emphasis on the facility, there is an increased risk in the proposed structure that banks will revert to collateral lending.

8. The terminology of OAEM, Substandard, Doubtful and Loss has been a part of banking practice for long enough that those terms are rarely used except with respect to the related definitions. The adoption of Marginal, Weak and Default as substitutes, uses terms commonly used in the industry for multiple purposes. To redefine those terms could cause interpretive issues in the identification of risk ratings.

9. The Bank currently has the capacity to implement the proposal.

10. The Bank would incur significant costs to implement this approach. The substantial portion of the costs incurred would be training costs.

Submitted by:

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