



State of North Dakota

DEPARTMENT of FINANCIAL INSTITUTIONS

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June 17, 2005

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Robert E. Feldman, Executive Secretary  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> St NW  
Washington DC 20429

Dear Mr. Feldman:

I would like to thank you for the opportunity to comment on the proposed classification of commercial credit exposure which was issued for release on March 28, 2005, by the Federal Deposit Insurance Corporation. As indicated, the proposed guidance would replace the current commercial loan classification system categories – “special mention”, “substandard”, and “doubtful” – with a two dimensional framework.

Prior to being the Commissioner for the North Dakota Department of Financial Institutions, I was Chief Examiner in charge of the examination function, and prior to that I was a field examiner for the Federal Deposit Insurance Corporation. I am very familiar with the current classification system used by the regulatory agencies, which is also the same rating system that the State of North Dakota uses in its safety and soundness examination reports. The State of North Dakota has not encountered any problems with the current loan classification system when conducting its safety and soundness examinations, nor have we been advised by our federal counterparts that there have been problems with this system. I am very surprised that the Federal Deposit Insurance Corporation sees a need to change the system at this time. I am not aware of any bank failures or other safety and soundness issues that have resulted from the old classification system, and see no need to change for the sake of change. I am concerned if the system is changed that it will result in significant cost to our agency for items such as reprogramming for

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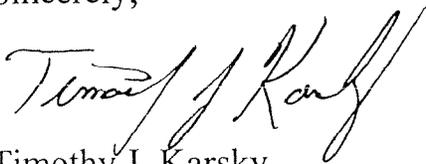
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the reports of examination, training examiners, and the banking industry in the North Dakota. Not only will this Department face these costs, but I feel the banking industry will also incur costs for the implementation of this new regulation, if adopted.

Although the current loan classification system has been in existence for over 30 years, I do not believe it needs to be changed. I would urge the Federal Deposit Insurance Corporation to withdraw this proposal at this time and, if necessary, to further study this issue and correspond not only with the industry but with other regulators including the individual states.

As a final thought, I would like to say that some things, even though they have not changed, still provide a very useful service. Every time I fly I am reminded by the flight attendants to insert the metal clip into the buckle. I believe this seat belt has been serving the airlines for as long as the classification system has been in existence. The seat belt continues to serve its purpose and I would like to remind you the current loan classification system seems to be doing the same. Again, I urge the Federal Deposit Insurance Corporation to withdraw this proposal and invite you to contact me if you have any questions concerning this letter.

Sincerely,



Timothy J. Karsky  
Commissioner

TJK:sr

cc: Conference of State Bank Supervisors  
~~Federal Reserve~~

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