



November 7, 2005

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue
Washington, DC 20551

RE: Docket No. R-1235
Definition of a Qualifying Small Bank Holding Company
Small Bank Holding Company Policy Statement

Dear Ms. Johnson,

The Florida Bankers Association (FBA) appreciates the opportunity to comment on the Board's proposal to increase the threshold level and other qualifying criteria for a bank holding company to qualify for the Small Bank Holding Company Policy Statement. The FBA is a state banking association that represents a large majority of Florida's banking institutions.

The FBA supports the Board's proposed changes to the definition of a qualifying small bank holding company that would raise the Policy Statement qualifying threshold to \$500 million to account for and reflect changes in the banking environment that have occurred over the past 20 years. The passage of time, inflation, industry consolidation and growth in assets has shown the original threshold of \$150 million that allows a small bank holding company to qualify for Policy Statement, and therefore not be subject to the Board's risk-based capital and leverage capital guidelines, is no longer practical in today's banking environment. Raising the qualifying threshold to \$500 million is more appropriate in order to continue to achieve the intended purpose of the Policy Statement to ensure that small bank holding companies operating with higher levels of debt than larger bank holding companies do not present a risk to the safety and soundness of their subsidiary banks.

The FBA has some concerns with proposed changes to criteria that allow for a small bank holding company to qualify for treatment under the Policy Statement. The Board's proposed changes state that in order for a bank holding company to qualify under the purview of the Policy Statement, they must be less than \$500 million in total assets as well as not engaged in significant nonbanking activities, either directly or through a nonblank subsidiary, does not conduct significant off-balance sheet activities, including securitizations or managing or administering assets for third parties, either directly or through a nonblank subsidiary and does not have a material amount of debt or equity securities outstanding that are registered with the SE.

1. Is not engaged in significant nonbanking activities, either directly or through a nonblank subsidiary. There are some concerns this may prove to be restrictive to community banks and their holding companies in regards to a banks affiliated insurance agency, which operates solely in insurance activities and may be a large source of revenue to the holding company and which could be interpreted by the Boards staff as a

“significant nonbanking activity” Therefore, we ask the Board to stipulate that purely agency activity should not disqualify a bank holding company from treatment under the Policy Statement.

2. Does not conduct significant off-balance sheet activities, including securitizations or managing or administering assets for third parties, either directly or through nonbank subsidiary. Assets under management in a trust department are not directly managed by the bank holding company, and are instead managed in the bank’s trust department and therefore would not be subject to the restriction on significant off-balance sheet activities, but the FBA requests that language be included in the proposed rule to make this clarification point. Also, there exists some concern that a small bank holding company would own a separately chartered trust company that does not take deposits and which holds sufficient assets considered to be significant off-balance sheet activity, but does not pose a significant operational risk. The FBA would recommend a provision that would allow for a bank holding company to request from the Federal Reserve District Bank, a supervisory determination stating that the nonbank activity does not pose a significant operational risk and therefore the small bank holding company could qualify for the Policy Statement.

3. Does not have a material amount of debt or equity securities outstanding with the SEC SEC registration can be triggered by an increase in the number of shareholders to 500 or more, this proposed revision might unintentionally exclude very old small bank holding companies that have such shareholder increases simply through inheritance from one generation to the next. The FBA would recommend that because these bank holding companies have SEC registered debt or equity but lack the complexity in operation and are not able to easily access the capital markets, they should be able to petition for a supervisory determination that will allow them to qualify for the Policy Statement.

The FBA does not support the proposed rule that will treat subordinate debt associated with trust preferred securities as debt under the Policy Statement. While it is not believed this would be constraining on small bank holding companies, there is concern the proposed revisions are the beginning of a slippery slope that will ultimately lead to disallowing trust preferred securities for Tier 1 capital which would prove to be a major loss of a financial resource for community bank holding companies and their banks.

Thank you for the opportunity to comment on the proposal.

A handwritten signature in cursive script, appearing to read "Elizabeth Wester".

Elizabeth Wester
Assistant Vice President of Government Relations
Florida Bankers Association