From: "Andrew Lock" <alock@monarchbank.com> on 04/07/2005 10:06:01 AM

Subject: Classification of Commercial Credit Exposures

Comments regarding the proposed legislations:

1) My institution, with $200 million in assets, could implement the approach. Given our low level of non-performing loans it would be quite easy.
2) Implementation expenses would be fairly minimal since my institution has a fairly low level of the assets discussed. The method of implementation would most likely be manual and the frequency of updating it would most likely be quarterly with internal watchlist reports and ad hoc as needed
3) The examples in the proposal are fairly clear, the ratings are reasonable, the treatment of guarantors is reasonable. I would expect most Chief Credit Officers are already informally calculating risk of loss.
4) I have an issue with using this system to justify ALLL. While I strongly believe that there is a direct relationship between troubled assets (risk ratings 5 and higher) I believe in the long run the industry is doing itself a great disservice by taking a purely quantitative approach to allocations because it does not sufficiently allow future macroeconomic considerations to factor into the calculations. Tying this system into the ALLL will only make the situation more quantitative and therefore allow for lesser amounts of unallocated reserves.

Regards,

Andrew “Andy” Lock
Chief Credit officer
Monarch Bank