From: Dennis F. Tiffany

Subject: Classification of Commercial Credit Exposures

Date: Jun 03, 2005

Proposal:	Interagency Proposal on the Classification of Commercial Credit Exposures
Document ID:	OP-1227
Press Release Date:	03/28/2005
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Comments:

@@@When reading these comments, it is important to understand that this information is presented from a regulator's point of view. It will appear that some of the comments are not directly related to the question being asked.

The agencies intend to implement this framework for all sizes of institutions. Could your institution implement the approach?

Financial institutions just like businesses differ tremendously in size and structure. A two-dimensional internal risk rating systems is inappropriate for many institutions. Personnel expense is a very large part of the bank's overhead expenses. I do not believe that there will be interest in taking the time and manpower to implement the two-dimensional internal credit rating system. If correct, credit ratings would only comply with federal regulations, thus eliminating the current system of "checks and balances" that exist between bank management and regulators. Unless a bank is doing poor in rating their portfolio, differences should exist. Poor interpretations by management of their portfolio will not change under this system.

Leveraging-off management's determinations is a move towards "rubber stamp" analysis. A vast majority of lenders accurately understand and management their credits well. It is not broken, so let's do not fix it.

The statement that "The current classification system focuses primarily on borrower weaknesses and the possibility of loss without specifying how factors that mitigate the loss, such as collateral and guarantees, should be considered in the rating assignment" is incorrect for us. We are as consistent as possible and have guidelines for collateral and guarantees. Correcting this situation could easily be done without completely overhauling the system.

Credit is not something you can completely identify by facts, because every credit has values and assumptions that either vary or just plane cannot be identified. Rating differences should exist between an institution and its regulators. Bank management is in a position to apply known factors about a credit that cannot be put into mathematical values. Not allowing the application of all factors it a situation would be an injustice to the institution. The statement “The current classification system does not adequately address how, when rating an asset, to reconcile the risk of the borrower’s default with the estimated loss severity of the particular facility” is correct, but impossible to apply. Attempting to use standard assumptions only allows for consistency, not accuracy. While establishing a method for consistency, you are also eliminating the inputs of human determination in establishing differences in business entities and human impact.

IP: 69.63.18.140
User Agent: Mozilla/4.0 (compatible; MSIE 6.0; Windows NT 5.1; SV1)