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June 7, 2005

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

RE: Proposed Regulation on Commercial Credit Exposures, Docket # OP-1227

Dear Ms. Johnson:

This letter will serve as my response to your request for Public Comment on the Interagency Proposal for change in the Classification of Commercial Credits.

First and foremost I am totally against such change. This system, which has been in place and has worked well for as long as I have been in bank supervision, well over thirty years, is one that both bankers and regulators know and understand. As regulators, we predicate our calculations for loan loss adequacy on the current classification definitions and bankers in turn use those indicators when they calculate the need for reserves. The new system will be more complex, more burdensome, and very costly to the institutions I regulate.

A couple of examples of how this new system could be counterproductive; first, rating a loan "weak" without any reserve requirements would leave the loan loss reserve under funded and if this same loan moves to "default" during an examination a significant adjustment would be required; and secondly, if a loan has no reserve requirement, bank management could or would be encouraged to make more marginal loans which could ultimately hurt the bank's soundness.

While I do not know the "genesis" of this project, I would suspect that the Securities and Exchange Commission as well as the accountants had some kind of input, two groups that should leave bank regulation to bank supervisors.

My only concession to the proposal would be to let it be geared to the ten or fifteen banks that would be subject to Basel II capital requirements, banks that supposedly have the money and sophistication to handle such complexities. However, for the vast majority of banks in the United States and Mississippi in particular, this proposal should be categorized and scraped under the old adage of, "if it's not broken, why fix it".

Thank you for the opportunity to allow me to comment on this proposal.

Sincerely,

John S. Allison
Commissioner

JSA/bkp

C: Honorable Susan Schmidt Bies, Governor, Federal Reserve Board
Mr. Neil Milner, President, CSBS