October 24, 2005

Public Information Room
Office of the Comptroller of the Currency
250 E Street, SW, Mailstop 1-5
Washington, DC 20219
Attention: 1557-0081

Steven F. Hanft
Paperwork Clearance Officer
Room MB-3064
FDIC
550 17th Street, NW
Washington, DC 20429

Jennifer L. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: 7100-0036

Re: Consolidated Reports of Condition and Income

To Whom It May Concern:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to offer comments on the proposal by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve to revise the Consolidated Reports of Condition and Income (Call Report).

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[1] *The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to representing the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace. With nearly 5,000 members, representing more than 17,000 locations nationwide and employing over 260,000 Americans, ICBA members hold more than $631 billion in insured deposits, $778 billion in assets and more than $493 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.*

INDEPENDENT COMMUNITY BANKERS *of* AMERICA *The Nation's Voice for Community Banks*℠
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Summary of ICBA's Position

The banking agencies are proposing deletions, additions and changes to Call Reports in an attempt to reduce regulatory burden and to enhance the off-site supervisory examination. Community banks appreciate the efforts of the banking regulators to seek ways to reduce the burden of the examination process. However, in ICBA's view, the proposed changes will not reduce regulatory burden of community bankers, but rather will increase burden, particularly for smaller institutions. Further, collecting the additional information will not streamline the on-site supervisory bank examinations. In fact, ICBA believes it could make the examinations longer and more difficult for bankers as examiners spend more time verifying Call Report data on-site.

The agencies also propose to add attestation requirements for the CEO, CFO, and the bank's board of directors. These attestations would state that the CEO and CFO are responsible for establishing and maintaining adequate internal controls over financial reporting. ICBA believes these changes are efforts on the part of the regulators to enforce Sarbanes-Oxley requirements on all banks, both public and private and will only add to the overall regulatory burden on community banks.

Proposal Summary and Background

Financial institutions file Call Reports every quarter with the banking agencies. The agencies use the information collected to monitor the condition, performance and risk profile of banks and the industry as a whole. Call Reports also provide information for identifying areas of focus for on-site and off-site examinations.

The banking agencies state that the proposed changes are the most significant to the Call Report since 2002. They acknowledge that the Call Report preparation contributes to overall regulatory burden and also acknowledge that onsite examinations contribute to regulatory burden. The proposal implies the amount of time examiners spend in banks during exams inversely correlates to the information that is provided on the Call Report. For example, the more information that is collected on the Call Report, the less time examiners may have to spend in the bank.

The banking agencies propose eliminating some items for uninsured deposits, asset-backed securities, derivatives income, and bankers' acceptances in order to reduce burden. Some of the proposed changes and additions include splitting loans secured by non-farm nonresidential properties (commercial real estate loans), the past due and non-accrual schedule, and the charge-offs and recoveries schedule into separate categories for owner-occupied and other commercial real estate; collecting further information on Federal Home Loan Bank advances by adding breakdowns of advances by type (fixed rate, variable rate, callable structured advances) and by next repricing date (one year or less, over one year through three years, over three years through five years, and over five years); and adding a new Schedule RC-P to collect data pertaining to closed-end 1-4 family residential mortgage banking activities for banks with $1 billion or more in total assets (smaller banks with significant mortgage banking activities may be subject to providing this information, as directed by their primary regulator).

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The banking agencies are also proposing to add officer and director attestation requirements to the call report. These changes would require the chief executive officer and the chief financial officer to state they are responsible for establishing and maintaining adequate internal controls over financial reporting, including controls over regulatory reports. In addition, the directors' attestation would indicate the directors have reviewed the Call Report. Preferably, the directors would serve on the bank's audit committee.

The banking agencies are proposing the changes to be effective for the March 31, 2006 Call Report.

ICBA's Position

The banking agencies argue if more risk-focused information is collected with the Call Report, examiners can do a better job assessing the risk areas of the bank. This may enhance the off-site supervisory process and potentially reduce time spent in the bank by examiners.

Community bankers surveyed about the proposed changes believe that examiners would not spend less time in the bank if additional information is collected in the Call Report. Instead, they believe, more time will be spent verifying the accuracy of the detailed information during the examination. In the bankers' experiences, examiners focus more on the exactness of every entry, rather than the meaning of the data. Bankers complain to ICBA that too often in the safety and soundness examination, they send large amounts of information to examiners ahead of the examination only to have them ask for it again, once on-site. Thus, they have little confidence that providing additional Call Report data will cut down examination burdens.

Elimination of Certain Items

The banking agencies propose to reduce burden by eliminating items related to uninsured deposits, asset-backed securities, derivatives income, and bankers' acceptances. ICBA believes that the elimination of these items would not reduce regulatory burden. The majority of community bankers state they do not have these items so they would not see any burden reduction. Those that do have them state that many of these items are easy to gather and eliminating them would not reduce burden.

Addition of Loan Activity Items

The ICBA believes that the most difficult proposed change to implement is the breakdown of commercial real estate loans into owner occupied, partial owner occupied and non-owner occupied. Currently, most banks' systems have no means of identifying which properties fall into the three categories. Bankers state that they would have to manually review their commercial real estate portfolio at each call report to make the determination as occupancy can change during the life of the loan. It would require that the loan classification codes be reviewed and modified for each loan, which could be a costly and time consuming process. Banks would have to use vital personnel resources and capital to make the modifications.

The banking agencies propose adding a new schedule on mortgage activity which would include mortgage loans held for sale at quarter end, quarterly originations, purchases, sales, and non-interest income from mortgage activities. Banks over $1 billion in assets would be required to report this information. Banks under $1 billion in assets with "significant" mortgage activity may be required to report the new schedule as directed by their primary regulator. If this schedule must be implemented, the cutoff for banks with $1 billion in assets to report the information seems reasonable. Nonetheless, ICBA believes that greater guidance is needed to determine which banks with less than $1 billion in assets need to report their mortgage activity. Leaving the regulator to define "significant" mortgage activity could result in confusion and inconsistent application. Instead of leaving the decision up to the primary regulator for banks with less than $1 billion in assets, ICBA suggests using a threshold by mortgage volume in units or dollars or percentage of assets. However, for any sized institution, it will be time consuming to collect the data for this new schedule and some information may even have to be collected manually.

Community banks have told ICBA that they do not believe that providing the additional information on Federal Home Loan Bank Advances would be burdensome in most cases. In addition, community bankers acknowledge the information is helpful in assessing and managing interest rate risk.

Officer and Director Attestation

The banking agencies are proposing to amend the current officer and director attestation requirements. The CEO and CFO would be required to state they are responsible for internal controls and regulatory reporting. The directors, preferably from the bank's audit committee, would be required to indicate they have reviewed the Call Report. The current attestation requirements call for an authorized officer and non-specified members of the Board of Directors to certify the Call Report conforms to the instructions set forth by its banking agency and the information is correct, to the best of his or her knowledge.

ICBA opposes the proposed modifications to require the CEO, CFO, and board of directors to make these attestations. These changes are an attempt to impose Sarbanes-Oxley Act Section 404 requirements on all banks, both public and private, and are unnecessary since examiners already review these controls as part of the examination process.

Furthermore, these certifications would impose a significant burden on community banks. As has happened to publicly held banks and holding companies as a result of SOX Section 404 requirements, these certifications will no doubt trigger a formal review process from the bottom up at every level of a bank so that, for instance, vice presidents will have to formally certify to senior vice presidents about internal controls and senior vice presidents will have to further certify to financial officers, who in turn will certify to the CEOs. Since most privately held community banks never have had to do these types of attestations, the process will be burdensome and time consuming. Non-executive staff, already performing many and varied functions, will need to increase their knowledge and awareness of the attestation process and in some cases, will need to

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know what are considered adequate internal controls in accordance with financial accounting rules. The process to obtain directors' signatures will also be onerous and will aggravate the problem that community banks already have with finding competent persons to serve as directors.

Implementation Date

The proposed changes will require banks to make a number of system changes. Some of the loan data "drill down" will require general ledger software and other changes, so community bankers need the additional time. Implementing the changes for the March 2006 Call Report would not allow enough time for community banks to complete them. Due to the amount of system modification, personnel resources and increased costs that will be required in order to fully comply with the changes, ICBA recommends a March 2007 implementation, if the banking agencies move forward with the proposed changes.

Community banks spend significant amounts of time each quarter to prepare Call Reports. The time and staff resources needed to implement this proposal will be particularly burdensome. The modifications will continue to be burdensome in subsequent quarters. Community bankers say it is difficult estimate the additional time to report each quarter and it will vary from bank to bank, but it will take significant time to make the proposed changes. Since most community banks have staff that perform many different bank functions, devoting additional time to call report preparation can be burdensome.

Conclusion

Overall, the proposed changes do not reduce regulatory burden for community banks and ICBA believes that regulatory burden will increase if the proposed revisions are implemented. Any changes made to the Call Report require additional personnel time and money. Smaller institutions are disproportionately affected. Instead of adding additional items to the Call Report, ICBA suggests the banking agencies look at streamlining the process and remove items that are seldom used or difficult to report.

Finally, ICBA opposes the proposed modifications to require the CEO, CFO, and board of directors to make new attestations. The changes are an attempt to impose Sarbanes-Oxley Act Section 404 requirements on all banks, both public and private.

Thank you for the opportunity to comment. If you have any questions or comments, please contact me by phone at 202-659-8111 or email at katie.bragan@icba.org.

Sincerely,

Katherine E. Bragan
Associate Director of Lending and
Accounting Policy