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Immediate Past Chairman
CAMDEN R. FINE
President and CEO

March 2, 2011

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552

Attention: Comments/RIN 2590-AA40

Dear Sir:

The Independent Community Bankers of America¹ (ICBA) welcomes the opportunity to comment on potential alternatives to the use of credit ratings in regulations that apply to the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Banks. Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Federal agencies to establish uniform standards of creditworthiness to replace the use of credit ratings in their regulations.

In a letter dated October 25, 2010 (attached) ICBA provided comments to other Federal agencies that were seeking public comment on the same issue. We offer those comments for consideration regarding the alternatives applicable to the Enterprises and the FHLBanks.

We appreciate the opportunity to comment on this issue. If you have any questions about our letter, please do not hesitate to contact me at 202-659-8111 or ann.grochala@icba.org.

Sincerely,

/s/

Ann Grochala
Vice President, Lending and Accounting Policy

¹ The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. 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 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold \$1 trillion in assets, \$800 billion in deposits, and \$700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.



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October 25, 2010

Office of the Comptroller of the Currency
250 E Street, SW
Washington, D.C. 20219

Office of Thrift Supervision
1700 G Street, NW
Washington, D.C. 20552

Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

FDIC
550 17th Street, NW
Washington, D.C. 20429

Re: ANPR Rulemaking Regarding Alternatives to the Use of Credit Ratings in the Risk-Based Capital Guidelines (OCC Docket ID: OCC-2010-0016; Federal Reserve Docket No. R-1391; FDIC RIN 3094-AD62; OTS-2010-0027)

Dear Sir or Madam:

The Independent Community Bankers of America¹ (ICBA) welcomes the opportunity to comment on standards of creditworthiness other than credit ratings that may be used for purposes of the risk-based capital standards. Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires the agencies to establish uniform standards of creditworthiness to replace the use of credit ratings in their regulations.

The agencies' existing risk-based capital standards (i.e., the Basel I risk-based capital standards) reference credit ratings issued by nationally recognized statistical rating organizations or NRSROs in a number of areas including (1) the assignment of risk weights to securitization exposures and (2) the assignment of risk weights to claims on, or guaranteed by, qualifying securities firms. However, it is the proposed Basel II standardized approach that relies most extensively on credit ratings to assign risk weights to various exposures. The agencies are therefore considering alternative creditworthiness

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standards that would be used in both the existing risk-based capital standards and the proposed Basel II standardized approach.

ICBA's Position

With respect to the risk-based capital standards, generally, community banks favor an approach to developing creditworthiness standards that would (1) appropriately distinguish the credit risk associated within a particular exposure within an asset class, (2) be sufficiently transparent and defined to allow banking organizations of varying size and complexity to arrive at the same assessment of creditworthiness for similar exposures, and (3) be reasonably simple to implement and not add undue burden on banking organizations. Community banks realize that there is a tradeoff among those principles—that is, the more a creditworthiness standard is able to refine and distinguish credit risks, the greater will be the implementation burden.

Community banks also favor exposure-specific risk weights in lieu of risk weights that are based solely on broad exposure categories provided that there is a relatively straightforward way to compute the exposure-specific risk weight. For instance, in lieu of risk-weighting all corporate exposures at 100 percent, community banks could work with a method of differentiating the credit risk of corporate exposures based on certain outside financial and economic measures pertaining to the borrower, provided that such measures were relatively simple to compute and easily accessible. Similarly, a system of differentiating the credit risk of sovereign exposures based on certain key financial and economic indicators could be useful, provided that the information was readily available and based upon a set of objective criteria established by the agencies.

ICBA recommends that the agencies also consider using objective third parties to assign different risk weights for exposures and to assess risks. As mentioned in the proposal, this is the approach that the National Association of Insurance Commissioners uses to assess various insurance risks for the insurance industry. The advantage of using a third party is that it provides a relatively easy way to further refine the risk-based capital rules and assess risks without unduly complicating them.

With respect to securitization exposures, community banks favor a relatively simple approach that would assign risk weights to different traditional securitization exposures. This could be done by either differentiating the credit risk based on some outside objective financial parameters or assigning the most senior securitization exposure a risk weight based on the underlying exposure type and the amount of subordination that provides credit enhancement to the exposure. With respect to guarantees and collateral, community banks could also work with a system of expanding on the general risk-based capital rules by substituting the risk weight appropriate to the guarantor or collateral for that of the exposure, based on certain objective and easily obtainable criteria.

Conclusion

Community banks generally favor using exposure-specific risk weights in the risk-based capital rules provided they are relatively simple to use and do not add undue burden on a banking organization. With respect to securitization exposures for instance, community banks favor a relatively simple approach that would assign risk weights to different traditional securitization exposures. Similarly, a system of differentiating the credit risk of sovereign exposures based on certain financial and economic indicators could be workable, provided that the information is readily available and based upon a set of objective criteria established by the agencies. However, ICBA recommends that the agencies consider using objective third parties to assign different risk weights for exposures and to assess risks. This would provide an easy way to refine the risk-based capital rules without unnecessarily complicating them.

ICBA appreciates the opportunity to comment on alternatives to the use of credit ratings in the risk-based capital standards. If you have any questions about our letter, please do not hesitate to contact me at 202-659-8111 or Chris.Cole@icba.org.

Sincerely,
/s/ Christopher Cole

Christopher Cole
Senior Vice President and Senior Regulatory Counsel