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June 8, 2007

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street, NW  
Washington, D.C. 20552

Attention: OTS-2007-0009; Savings and Loan Holding Company Rating System

Dear Sir or Madam:

The Independent Community Bankers of America (ICBA)<sup>1</sup> appreciates the opportunity to comment on proposed changes to the rating system that the Office of Thrift Supervision (OTS) uses to evaluate the condition of Savings and Loan Holding Companies.

### **Background**

The current rating system for savings and loan holding companies (SLHCs) used by the OTS was implemented in 1988 and is made up of the following component or evaluation areas:

- Capital, which looks at all levels of capital and analyzes leverage, cash flow, etc.;
- Organizational Structure, which reviews the activities of the holding company and other affiliates to determine regulatory compliance;
- Relationship, which assesses the degree of influence the holding company has over the thrift and whether the board of directors provides adequate oversight; and

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<sup>1</sup>*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 18,000 locations nationwide and employing over 265,000 Americans, ICBA members hold more than \$876 billion in assets \$692 billion in deposits, and more than \$589 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).*

- Earnings, which assesses the holding company's operations and financial condition and its current and prospective effect on the subsidiary thrift.

After evaluating these four components, OTS assigns a composite "CORE" rating for the savings and loan holding company of above average, satisfactory, or unsatisfactory.

OTS is proposing certain changes to the component descriptions and rating scales to better evaluate SLHCs. The structure of the CORE rating system will remain; however the "R" for Relationship will be replaced with Risk Management. Within the Risk Management component, examiners will evaluate many of the same issues as under the Relationship component except that more of the focus will be on how the holding company board and senior management monitor and address risk.

With respect to the rating system, OTS is proposing to institute a five-point numerical scale similar to CAMELS rating system already used by the OTS in their regulation of thrifts and similar to the Uniform Financial Institution Ratings System. This five point scale would be used to evaluate both the composite and component ratings assigned to the SLHC. A rating of 1 will be the best rating whereas a rating of 5 will be the worst. The OTS believes that the use of a five-point scale will better reflect issues of supervisory concern and will provide more distinction in the supervisory assessment of condition. A five-point scale also correlates with and is more comparable to the thrift and bank holding company rating systems.

### **ICBA's Position**

**ICBA agrees with the OTS that the new five-point rating system will provide more distinction in the supervisory assessment of condition and will more accurately assess the condition of SLHCs.** The current rating scale does not communicate meaningful distinctions in the strengths and weaknesses of holding companies particularly with respect to large and complex holding companies. With aggregate consolidated assets of around \$7.7 trillion, SLHCs are now more complex than ever and engage in international operations and in multiple types of financial activities. We agree that the OTS must do more to accurately assess the risk profile of many of these complex holding companies and determine how well they are able to measure, monitor and control risks.

We also believe that the OTS's proposed changes to the CORE framework should accomplish its goal of focusing more of the safety and soundness examination on risk management. We appreciate the fact that the OTS is not changing the way it evaluates the financial components of CORE (e.g., Capital and Earnings) but instead will elevate the prominence of risk management with respect to the "R" component and to some extent with the "O" component. We believe this is a prudent move since the growth and diversity of SLHCs requires a more risk-based examination framework. We also agree that bankers will quickly understand the new rating system since it correlates with the current OTS CAMELS rating system.

## Conclusion

ICBA agrees with the OTS that the proposed new rating system will elevate the prominence of risk management, better align holding company examination components with OTS' supervisory process, and provide a more accurate assessment of the condition of SLHCs. ICBA appreciates the opportunity to offer comments in connection with the proposed new rating scale used to evaluate the condition of Savings and Loan Holding Companies. If you have any questions about our letter, please do not hesitate to contact me at 202-659-8111 or [Chris.Cole@icba.org](mailto:Chris.Cole@icba.org).

Sincerely,



Christopher Cole

Regulatory Counsel