# Beal Savings Bank

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June 30, 2005

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Subject: Interagency Proposal on the Classification of Commercial Credit Exposures (the "proposed framework")

Dear Mr. Feldman:

We believe the proposed framework is an important step in the right direction – particularly because it attempts to highlight the critical role that collateral plays in loss mitigation. We are also pleased that the proposed framework is designed to eliminate the disparate conclusions that the agencies and the institutions reach in some cases through the application of the current classification system.

Unfortunately, the proposed framework will not consistently produce the desired results because the collateral requirements are unduly restrictive and continue to exclude many types of collateral that effectively mitigates or eliminates loss.

Our specific concerns are as follows:

1. Remote Risk of Loss. Facilities or portions of facilities that represent a remote risk of loss should specifically include those facilities that are secured by collateral such as inventory, equipment or real estate that can be readily converted to cash (at a discounted price in some instances) in addition to cash, marketable securities, commodities, livestock and other liquid collateral.

2. Asset-Based Lending Facilities. The collateral that supports some ABL facilities and mitigates loss severity or eliminates risk of loss altogether is not always under the institution's direct control – although such collateral can readily be foreclosed upon and liquidated. Facilities like this should not be excluded from the "remote risk of loss" category simply because the institution must first exercise its default rights and remedies.

3. Securities. To the extent that an institution underwrites the purchase of a bond or other security under its lending authority, the proposed framework should apply to the respective commercial credit exposure in the same manner as a loan that the institution originates.

We appreciate the opportunity to comment on the proposed framework. In our view, the primary deficiency in the current classification system is its failure to recognize the extent to which collateral mitigates (and in many cases eliminates) loss severity and risk of loss. We believe this deficiency is continued in the proposed framework because of the unduly restrictive collateral requirements for facilities in the "remote risk of loss" category.

The adjustments described in points 1 and 2 above will cause the proposed framework to accurately reflect the commercial lending reality that we see every day – i.e., many types of thoughtfully selected and carefully managed collateral mitigates loss severity and, in many cases, eliminates risk of loss. We believe the "remote risk of loss" category should clearly contemplate and include facilities that are supported by such collateral.

We hope our comments are instructive and look forward to continuing this dialogue as the proposed framework is developed.

Very truly yours,

Stephen J. Costas

SJCL065025