

From: Tim Alexander [mailto:tim@triunegfs.com]
Sent: Monday, May 14, 2012 1:12 PM
To: Mitchell, Patrick
Subject: Leveraged Lending

Sir:

It is always a pleasure to ~~speak~~—err, communicate with you.

As you may recall, my firm Triune, provides due diligence services for commercial lenders. As I have said before, I am concerned as to the trends I am seeing in C&I lending and I believe regulators have valid hesitations as well.

I have been asked to offer comments on several new proposals including Assessments, Large Bank Pricing. As I have not yet finished this document, I need to wait. However, there is another proposal discussing C&I lending. Since my comments are already in, I would like to offer some short thoughts on the topic of highly leveraged lending and the **Proposed Guidance on Leveraged Lending**.

On the surface, this seems to be a proposal of minimum intrusion. It asks for robust pipeline reporting, robust overall reporting, and a single metric for measuring leveraged lending. So, what could be simpler?

The proposal seems to be written with a very high level and superficial understanding of commercial banking. It appears rely on knowledge of items like Call Reports. One of the many reasons I intensely dislike call reports is they are rolled up and summarized to such a high level to such a high level that understanding practical banking is not easy. A reader of such reports may be misinformed to believe C&I lending is within a single entity and homogenous. This is not accurate.

Consider Wells; this bank has a “corporate banking” entity, several “business credits”, specialty finance, and a Factor. This organization covers the entire spectrum of C&I lending. Each unit has unique executive management, risk footprint, target markets, etc. If one were to externally impose a single metric for leveraged lending; to which unit does it apply? Whatever the metric is, one unit will say we are at that now, and the other units will be out of business.

In America we have had giant non depository participants in C&I lending. This would include, ING Capital, CIT, GE Business Capital, Textron, Bibby, etc. At the start of our recent recession, these companies simply stopped lending or folded. Companies serviced by these lenders were hardest hit because they were not “bankable”, and that industry just stopped.

Again, let me repeat that as a provider of services to this industry, I am concerned over what I see. I do believe there is a better way to achieve the same regulatory goal. Before I go into that I would pose a rhetorical question. As a Regulator, can you think of a time where a rule or guidance, thought to be reasonable, and been completely side stepped? I am sure you could think of an example.

Suppose the Proposed Guidance on Leveraged Lending passed as written. Currently there are many animated, banking discussions. (Any time the words banking, animated, and discussions are together, assume a great deal of swearing). One suggestion is to shed assets. Not a

traditional good bank-bad bank situation, but completely sell anything above the target leverage. I think this is a bad idea for many reasons. First, any C&I activity outside banks is also outside any form of national, monetary policy control. For example, most of the C&I loans have been priced at LIBOR for about 20 years. Since the Fed has no control over LIBOR, this activity is outside monetary policy control. Second, when banking sheds assets there is less for regulators to do. Finally, in shedding assets there is the unintended consequence; such as the DIF impact.

Now to my suggestion. You have an army at your disposal, the examiners. If examiners were to modify their practices, this staff could deliver more information than any Call Reports. My solution is examination, not regulation.

I have had the pleasure to speak once or twice with Mrs. Sandra Thompson, one of your colleagues. I think she is over the examination function. I would guess that one morning over coffee between the two of you would be more fruitful than five or ten rules. The best part of examination over regulation is that you have staff on the ground. You do not need permission, buy-in, new proposal, or new rules to change their approach; you just do it.

I have examples of banking within the last 60 days that can demonstrate pipeline reporting, and would be happy to share.

I will be fining my comments and get them out soon. If I can be of any assistance please feel free to call.

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