

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

April 26, 2005

**BANKING SUPERVISION AND REGULATION:
REQUEST FOR COMMENT—CLASSIFICATION
OF COMMERCIAL CREDIT EXPOSURES**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Comments Requested on Proposed Classification of Commercial Credit Exposures (OP-1227)

The federal bank and thrift regulatory agencies have requested comment on proposed changes to the supervisory framework for the classification of commercial credit exposures.

The proposed guidance would replace the current commercial loan classification system categories—"special mention," "substandard," and "doubtful"—with a two-dimensional framework. The two-dimensional rating system has one dimension that measures the risk of the borrower defaulting (borrower rating) and a second focused on the loss severity the institution would likely incur in the event of the borrower's default (facility rating). Facility ratings would be required only for those borrowers rated default, typically a very small proportion of all commercial exposures.

The proposed framework would increase consistency among the agencies in assessing the credit risk in an institution's commercial loan portfolio. It also more closely aligns the determination of a facility's accrual status with an institution's allowance for loan and lease loss methodology and rating assessment process.

Comments on the proposed guidance are requested by **June 30, 2005**.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>.

For additional information about the proposal, please contact our Banking Supervision and Regulation Department at (801) 322-7964.

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Attachment: [Docket OP-1227](#)