I am the CFO of a community bank in Paducah, KY. I am responsible for the purchasing of our investment portfolio which is entirely debt securities such as bullet agency bonds, mortgage-backed securities (MBS), municipal bonds and CMOs issued by both the agencies and private label variety. I can understand the frustration over the credit rating agencies from the financial “meltdown” of 2007-08. We did over rely on our AAA rated status but what occurred was not something that can be blamed entirely on the rating services. I believe, by and large, the ratings are and would continue to be valuable to me as a community banker for single-obligor issues such as for corporate bonds and municipals. It is unreasonable to expect our bank to have to dig deeply into the financial statements of all such issuers. We need the rating agencies to do this for us. I may not understand the requirements of the Dodd-Frank Act with respect to this rating issue, but if it results in the elimination of the ratings for the thousands of potential debt securities, than I am going to be at a loss of what to buy which could paralyze my investment portfolio. We need the credit ratings.

I do have a problem with the credit ratings for private label multiple obligor issues such as MBS or CMOs. The mechanics of the rating services just does not work well for such issues. The single dollar of loss approach for a security with 1,000 obligors just does not work. Rating such a bond as CCC and thus “junk” or “toxic” because .01% of the entire issue may be at a loss makes no sense when 99.99% of the balance would otherwise be AAA by all other measurements. The rating agencies should be allowed to split the rating between the AAA remaining portion and the BBB or even CCC portion based on a percentage of expected recovery of all principal and interest. As it is now with the single rating for an entire CMO, we are not allowed to purchase the entire security at a substantial discount without it being “classified” by our examiners. The price paid has no bearing on the classification. We could potentially buy a bond at 95, expect to receive 99.5, but yet have a fully classified bond which could impact our CAMELS rating. With a split rating, only the “substandard” portion (that not expected to be full recovered), would be classified. Thus if we can purchase such a bond at or below the price equivalent to the AAA split portion, there would be no classification.

In summary, I believe we should continue with the letter grading from the rating agencies as is for the single obligor issues, but require the splitting of the ratings from multi-obligors such that an AAA portion can be reported that would enable banks like ours to buy and hold such securities without it impacting our safety and soundness ratings. In addition, the total abandonment of the letter ratings to a more cash flow driven or other mathematical methodology would impair our ability to even purchase future investment securities as I don’t have the time or expertise to sort through such an analysis. Yes, rating agencies will be wrong in the future on occasion, but the any alternative method seems much worse than accepting the potential future mistakes. I fear throwing out all credit ratings could drive up issuance costs to our state governments as there could be fewer and fewer buyers who would not have the resources to understand anything other than the single letter rating which could increase the state deficits and impact our states negatively. Enhancing the letter ratings to allow for a split rating based on expected recoveries for multi-obligors is a fix that is needed. Thank you for the opportunities to express my opinion.