FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

OFFICE OF THE CHAIRMAN

May 21, 2010

Mr. Alex Sanchez
President and CEO
Florida Bankers Association
P.O. Box 1360
Tallahassee, Florida 32302

alex
Dear ~~Mr. Sanchez~~:

Thank you again for inviting me to participate in your Leadership Dinner. We applaud your members' continued efforts to work through the challenges of the current banking crisis and appreciate hearing their concerns in your letter about the bank supervision process. The Federal Deposit Insurance Corporation greatly benefits from our dialogue with the industry, and we welcome the opportunity to respond to your comments.

We agree with you that the operating environment for Florida's banks remains harsh as the economic downturn and weak real estate market have significantly affected credit quality. A number of financial institutions in your state and across the country are contending with rising credit delinquencies and losses, declining earnings, and eroding capital protection. This has led to an increased number of problem financial institutions and, unfortunately, resolution situations. The FDIC has maintained a balanced supervisory approach during this difficult period by continuing our vigilant oversight but remaining sensitive to the realities of local economic and real estate market conditions. There has been no change in our examination process, which we believe is fair and transparent; and the oversight of each FDIC-supervised institution continues to be tailored to its risk profile, business lines, and operating performance.

Asset quality has been a significant examination focus because of rapid deterioration in credit quality. Adverse economic conditions have negatively impacted borrowers' cash flow, prompting an increase in delinquencies and asset classifications. Institutions with high concentrations of construction and commercial real estate loans originated with relaxed underwriting and terms have been particularly vulnerable to higher classification levels. As you point out, the FDIC continues to rely on time-tested metrics to evaluate credit quality, such as the total past-due ratio, the non-current loans ratio, and the adverse classifications-to-capital and reserves ratio. Collectively, these performance measures and our examiners' on-site loan reviews are used to assess asset quality. Importantly, no one metric dominates the assignment of the asset quality rating. Instead, our examiners rely on quantitative and qualitative factors to determine CAMELS component and composite ratings. Notably, our examiners rely significantly on banks' credit risk rating systems to derive the classifications reported at examinations. In many cases, examination results validate banks' own credit risk assessments and internally calculated credit performance ratios.

With respect to concerns about aggressive supervisory charge-off expectations, we do not instruct banks to recognize losses on loans solely because of collateral depreciation or require appraisals on performing loans unless an advance of new funds is being contemplated or is otherwise warranted for a safety-and-soundness reason. Write-downs on assets to liquidation values would generally be contrary to generally accepted accounting principles and regulatory guidance. Nevertheless, when available information confirms that specific loans or portions of loans are uncollectible, we expect banks will recognize these losses in a timely manner by promptly charging them off against the loan loss allowance.

In addition, there has been no change in our process for evaluating capital adequacy, and regulatory minimums remain in force. However, as we have done in the past, individual institutions with asset quality or earnings weaknesses frequently need to hold higher capital levels because of safety-and-soundness considerations. This is a tried-and-true bank management and supervisory imperative for long-term success. It also is important to remember that a great majority of insured institutions have a reasonably healthy balance sheet and adequate capital.

The FDIC listens to concerns voiced by bankers and trade associations about the regulatory process, and our staff understands the significant impact of current economic conditions on financial institutions. The Corporation also has benefitted from the valuable insight on supervisory issues provided by the FDIC Advisory Committee on Community Banking, which includes a bank representative from the State of Florida. We commend bankers' concerted efforts to address borrowers experiencing difficulties making payments and help homeowners avoid foreclosure. I assure you the Corporation will continue to work constructively with Florida's community banks as they navigate this difficult period.

Thank you again for sharing your thoughts with me. If you have any questions, please call me at (202) 898-6974 or Paul Nash, Deputy to the Chairman for External Affairs, at (202) 898-6962.

Sincerely,

Sheila

Sheila C. Bair