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BEST IMAGE AVAILABLE

November 5, 2003

VIA FEDERAL EXPRESS DELIVERY

The Honorable John D. Hawke, Jr.
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

The Honorable Donald E. Powell
Chairman
The Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429-9990

The Honorable Alan Greenspan ✓
Chairman
Federal Reserve Board
20th and Constitution, NW
Washington, DC 20551

The Honorable James E. Gilleran
Director
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

Re: Comment on the U.S. ANPR (Basel II)

Ladies and Gentlemen:

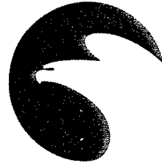
Please be advised that, on behalf of our client, The Colonial BancGroup, Inc., we are resubmitting to each of you, with this letter, the enclosed comment letter. The comment letter was initially submitted by electronic mail on Tuesday, November 4, 2003, in accordance with instructions contained in the Advanced Notice of Proposed Rule Making ("ANPR"), dated July 11, 2003. After submitting same, however, we received notice from our internet service provider that the message was "undelivered." We are resending the comment letter in an effort to ensure your receipt of same. For your reference, a copy of the non-delivery notification is also enclosed.

Sincerely,

Miller, Hamilton, Snider & Odom, LLC

Miller, Hamilton, Snider & Odom, LLC

Enclosures



Colonial
BancGroup

October 31, 2003

The Honorable John D. Hawke, Jr. Comptroller Office of the Comptroller of the Currency 250 E Street, SW Washington, DC 20219	The Honorable Donald E. Powell Chairman The Federal Deposit Insurance Corporation 550 17th Street, NW Washington, DC 20429-9990
The Honorable Alan Greenspan Chairman Federal Reserve Board 20th and Constitution, NW Washington, DC 20551	The Honorable James E. Gilleran Director Office of Thrift Supervision 1700 G Street, NW Washington, DC 20552

Re: Comment on the U.S. ANPR (Basel II)

Ladies and Gentlemen:

Colonial BancGroup welcomes the opportunity to comment on the proposed implementation of Basel II, as outlined by the Advanced Notice of Proposed Rule Making ("ANPR"), dated July 11, 2003.

Colonial BancGroup, a financial holding company, is the parent of Colonial Bank, N.A., a national bank with 273 offices located in the states of Alabama, Florida, Georgia, Nevada, Tennessee, and Texas. Colonial Bank seeks sustainable growth by focusing on quality consumer and commercial lending. By maintaining our standards and relying on credits we know and understand, Colonial Bank has largely avoided the pitfalls that have adversely affected financial institutions in the past. As a result, Colonial BancGroup reported approximately $15.8 billion in assets as of year-end 2002.

Because of the size and geographic diversity of our operations, we compete daily with an array of financial institutions -- large and small, bank and non-bank. In addition, as a publicly traded company, we have numerous shareholders who rely on us to conduct our affairs in a manner that is both efficient and prosperous. Consequently, we have followed the development of Basel II with close interest, believing it will have both direct and indirect consequences for our operations.

Post Office Box 1108, Montgomery, Alabama 36101-1108
Telephone 205/240-5000
AN EQUAL OPPORTUNITY EMPLOYER

Sarah Moore, our Chief Financial Officer, provided testimony on our assessment of Basel II before the House Financial Services Subcommittee on Domestic and International Monetary Policy in February of 2003. At that time, she expressed many of our concerns about the potential negative impact Basel II will have on U.S. banks. Our comments during those hearings were directed towards the Basel Committee's Second Consultative Paper (CP2). Since those proceedings Basel II has undergone revisions in the form of the Committee's Third Consultative Paper (CP3), and the U.S.'s ANPR edition. We appreciate the Basel Committee's and the U.S. banking regulators' tireless efforts in this regard. Unfortunately, many of the concerns Mrs. Moore expressed during her testimony remain.

General Comments

On an initial basis, we are of the opinion that Basel II in all of its complexities has lost sight of the primary intent behind the development of the original Basel Capital Accord "to secure international convergence of supervisory regulations governing the capital adequacy of international banks."[1] A review and understanding of Basel II's methodologies indicate that this intent is no longer a focus of the Basel Committee. While on the one hand, the Committee has lauded Basel II for providing the flexibility lacking in the original Accord, it has contradicted itself by producing a document so technical and specific that the only flexibility remaining is the manner in which countries will adopt and enforce its provisions. As evidence, spurred by its encyclopedic nature and technical complexities, both China and India have stated they will not implement Basel II. Additionally, the Italian Economy Minister, Giulio Tremonti, is reported as saying that his country should not go along with Basel II.[2] Likewise, we in the U.S. have seen the need to develop our own "Americanized" version of Basel II, limiting its direct application to only a handful of U.S. banks. In short, we fear Basel II has lost sight of the forest because of the trees.

With the above predicate in mind, there are several areas of concern that we feel compelled to express. Due to the document's complexities, Basel II's implementation

[1]Basel Committee on Banking Supervision, *International Convergence of Capital Measures and Capital Standards*, at 1 (July 1988), <http://www.bis.org/publ/bcbs04A.pdf>.

[2]*Italy Should Ditch Basel II Bank-Safety Rules,* Wall St. J., Oct. 11 2003.

and enforcement will create significant monetary costs that banks and their regulators alike will be forced to absorb. Likewise, stemming from the document's complexities, Basel II will create competitive disadvantages for U.S. banks due to the varying degrees of application the Accord will receive by countries with a less strenuous and sophisticated enforcement regimen.

We additionally believe Basel II employs suspect methods for determining risk weights and assigns risk weights to asset categories unsupported by empirical data. As a result, Basel II produces risk weights not in line with an exposure's true risk. Basel II will exacerbate upturns and downturns in the economic cycle and, moreover, due to the bifurcated approach proposed in the U.S.'s ANPR, Basel II will create an uneven playing field in the U.S. between large and small banking institutions.

We believe the ANPR initiated by the U.S. banking regulators is, in part, an acknowledgment of these and other shortcomings of Basel II, and we thank them for their foresight in this regard. Nonetheless, we would be remiss if we did not express our concerns over the apparent "rush-to-completion" approach taken by some members of the Basel Committee. An approach we believe that has led to the loss of the goals strived for by the original Accord.

> . . . that the new framework should serve to strengthen the soundness and stability of the international banking system; and . . . that the framework should be fair and have a high degree of consistency in its application to banks in different countries with a view to diminishing an existing source of competitive inequality among international banks.[3]

Accordingly, Colonial Bank advocates a thorough and systematic review of Basel II's processes for its impact on the U.S. banking environment -- realizing the ANPR is part of this process -- and if merited by such a review, a complete reworking of Basel II.

Treatment of Expected Loss

Recent actions by the Basel Committee [occurring subsequent to the release of the ANPR] demonstrate that the final version of Basel II will likely not require regulatory capital to cover expected losses. This is in departure from the current and previous

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[3]Basel Committee on Banking Supervision, *supra* note 1.

versions of Basel II, which mandate that a bank's regulatory capital must be allocated to cover both expected and unexpected losses.

Generally, most banks in the U.S., and we at Colonial, capture expected losses in the pricing of loans and through allocations to reserves, i.e., through net interest margin and provisioning, respectively. It is noted that the current definition of capital allows for the inclusion of general reserves up to 1.25% of risk weighted assets as Tier 2 capital. However, removing expected losses from the equation would bring regulatory capital more in line with banks' economic capital. This may necessitate revisiting the definition of capital for regulatory purposes, however, we believe the Basel Committee's actions are a step in the right direction and would hope that this decision is reflected in any version of Basel II to be applied in the U.S.

Continued Use of the Leverage Ratio

The ANPR confirms that the U.S. banking agencies will continue to impose the leverage ratio requirement and Prompt Corrective Action ("PCA") guidelines. While we advocate and encourage continued imposition of the PCA regulations (with, perhaps, some modifications in light of Basel II), we question the continued use of the leverage ratio requirement. Unless a majority of a bank's exposures carry a greater than 100% risk weight, Basel II will always produce ratios less than the requirements of the leverage ratio, and will, therefore, be rendered useless. It seems illogical to enforce Basel II with all of its costs (on even the nation's top ten or so banks), if the impact on the bank is purely academic. We would ask that if Basel II proceeds to implementation, the U.S. banking regulators revisit the continued viability of the leverage ratio. In contrast, if the leverage ratio will continue to be the primary binding constraint on banks, we would hope the logicality of adopting Basel II would similarly be questioned.

Costs

Much has been said about the high costs associated with Basel II. Indeed, our own internal estimates have the cost of implementation at several million dollars. In addition to this substantial cost, however, are the ongoing expenses banks will incur on a daily basis vis-à-vis the Accord. The driving force behind these expenses will be the additional employees banks must retain, numerous resources that must be acquired and maintenance of the databases needed to apply Basel II's processes.

Such a hefty price tag will likely deter many institutions from developing the systems and advanced risk management techniques the Basel Committee foresees growing out of Basel II's implementation. The net result will be stagnated growth in technological advancements the industry needs.

We additionally fear Basel II's high costs will encourage many institutions to simply de-bank and operate outside the scope of regulatory bodies and to the disadvantage of their banking competitors.

Finally, for national banks, the costs associated with enforcing such a complex regimen will be born directly by them. Significant costs in this regard could lead many national banks to seek out state charters where examination costs are not levied directly. In this regard, while we believe the FDIC and Federal Reserve have the necessary resources, we fear that state banking supervisors may not be equipped to oversee the complex institutions that will operate under Basel II.

U.S. Banks at a Competitive Disadvantage

As was demonstrated by our opening comments, Basel II will be implemented and enforced around the globe in varying degrees. Realizing that the U.S. banking system is the most vigorously regulated banking system in the world, we fear that U.S. banks will be put at a competitive disadvantage to banks operating in countries that do not enforce the Accord to the same degree.

Such enforcement issues currently exist with the original Accord, and due to the document's complexities, will likely happen to a greater degree under Basel II. For instance, in regard to the regulatory capital held by Japanese banks, *The Wall Street Journal* reported on October 30, 2002, "The [Japanese] regulations allow bank capital to be crammed with squishy stuff like potential tax credits and securities the banks will have to redeem in the future . . . as harder types of capital, such as shareholders' equity, are eroded by losses on bad loans and declining stock prices." Despite reports that many of Japan's largest banks are under water, their capital ratios are still touted as being in compliance with the requirements of the original Accord.

As a result, the risk-taking activities of Japanese banks and those operating under similar enforcement regimes are not adequately measured by the Accord, and thus, their activities are not constrained to the same degree as U.S. banks. As with the enforcement of the original Accord, it is believed that Basel II will be enforced by some countries in a

similar inconsistent and half-hearted manner, and therefore, international competition will be skewed in favor of the offending countries' banks.

Risk Weight Calculations

In calculating risk weights under the A-IRB approach, Basel II provides formulae that must be calculated according to the particular asset type. In calculating these formulae, banks supply values for the components Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure at Default ("EAD"), Maturity ("M"), and Exposure ("E"). These components or inputs reflect specific attributes of the particular loan for which a risk weight is being calculated, for example, the measure of PD is a bank's estimate of the probability of a particular loan defaulting over a given period of time.

In addition, most risk weight formulae under Basel II contain an asset correlation factor. Asset correlations are used to quantify the tendency for individual loans to default in groups or clumps based on external stimuli. "Conceptually, the asset correlation will be larger the greater the extent to which the rates of return on different properties are likely to respond similarly to a common set of economic risk factors, such as overall economic activity, inflation, tax code changes, etc."[4]

Although the asset correlation factor has been cited as being a part of modern loan-pricing theory, we believe that the revised Accord applies this concept in such a manner as to double-count its effects, and thus, risk weights under Basel II are artificially inflated. Simply put, the same factors that drive asset correlation assumptions also determine a bank's estimate of PD (PD is determined based on an institution's historical experiences with default rates on particular loans). The stimuli that cause loans to default are the same stimuli as those upon which the asset correlation factor is derived, e.g., overall economic activity, inflation, etc. "[T]wo empirically based methods are available for calibrating the asset correlation for a given portfolio . . . . One method employs historical data on the default rates of portfolios similar to the portfolios of interest . . . ."[5]

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[4]Bradford Case, *Loss Characteristics of Commercial Real Estate Loan Portfolios: a White Paper by the Staff of the Board of Governors of the Federal Reserve,* at 18 (June 2003), <http://www.federalreserve.gov/GeneralInfo/Basel2/docs2003/cre_060903.pdf>.

[5]*Id.* at 21.

Accordingly, when a bank estimates values of PD for particular exposures, it has already taken into account the asset correlation of these exposures because the asset correlation component is necessarily present in the historical data that drives PD. That is to say, if a bank has an increased number of defaults in its historical data due to the underlying exposures exhibiting a high asset correlation, the bank will necessarily have a higher estimate of PD because the estimate will be based on the same increased number of defaults.

Because of the foregoing, we believe the inclusion of the asset correlation factor is unnecessary in light of the use of the PD component. Consequently, the formulae which rely on the asset correlation factor inadvertently create asset-risk-weights out of line with their actual level of risk.

Treatment of Commercial Real Estate

Commercial real estate ("CRE") has perhaps benefitted most from subsequent revisions of Basel II. However, we continue to believe its treatment is unjust because the risk weights associated with CRE are not in line with the category's true risk.

Currently, CRE is divided into two categories, low asset correlation CRE and HVCRE (High Volatility Commercial Real Estate). Low asset correlation CRE is given the wholesale risk weight function, which is the same function applicable to C&I (corporate) exposures. Applying the wholesale risk weight function to low asset correlation CRE exposures reflects the findings contained in a Federal Reserve White Paper regarding the loss characteristics of CRE portfolios.

> On the basis of the uncertainty regarding the difference between CRE and C&I asset correlations, the Federal Reserve Board staff believes that no adequate empirical basis currently exists for requiring banks to calculate minimum regulatory capital [for CRE exposures] using a risk weight function (explicit or implicit) that differs from that used to establish C&I capital requirements.[6]

[6]*Id.* at 39.

We believe that this treatment of low asset correlation CRE is the correct approach, and we applaud the U.S. banking regulators and the Basel Committee for making this timely change.

On the other hand, while HVCRE likewise utilizes the wholesale risk weight function, it has been modified by incorporation of a substitute asset correlation formula that produces higher risk weights. In this regard, the higher risk weights increase the capital requirements on these loans beyond that of low asset correlation exposures by as much as 25%.[7]

The ANPR limits CRE loans that are considered as HVCRE to ADC (acquisition, development and construction) loans, yet provides that ADC loans will not be subject to HVCRE treatment if the borrower has substantial equity or the source of repayment is substantially certain (i.e., the property is pre-sold or substantially pre-leased). We agree that requiring borrower equity and predictable income streams are conducive to creating stronger credits. However, our experience has shown that adherence to a sound lending policy, which contains more factors than simply the equity component of a loan or whether a project is pre-leased or pre-sold, reduces the volatility of lending to a particular sector the most. This postulate is strengthened by the positive loan loss experience over the last credit cycle enjoyed by not only Colonial, but by all banks engaged in CRE lending.

For example, Federal Reserve data indicates that annual net charge-offs as a percentage of loans are lower for CRE loans than for C&I loans every year since late 1995. Moreover, the same data indicates that the margin between net charge-offs for these two categories has grown every year during the same period, with C&I net charge-offs exceeding CRE net charge-offs by more than a full percentage point as of second quarter 2003.[8] Striking in this regard is that the CRE loan category consists of both types of exposures that Basel II has defined as low asset correlation exposures or HVCRE

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[7] A low asset correlation exposure of $100 with a .50 percent PD, LGD of 45 percent and M of 5 years, carries a capital charge of 8.03 percent. An HVCRE exposure exhibiting the same properties carries a capital charge of 10.07 percent.

[8] Board of Governors of the Federal Reserve Website, <www.federalreserve.gov/releases/chargeoff/chg_all_sa.txt>.

exposures, and that the CRE charge-offs are reported without regard to equity ratios or pre-sold/pre-leased parameters.[9]

As to our own experience with ADC loans, as of September 30, 2003, the portfolio exhibited net charge-offs (annualized) of 0.05%. An impressive number when compared to net charge offs (annualized) for our entire CRE portfolio, which was at 0.20% as of September 30, 2003. Moreover, CRE as a portfolio has performed better than the Bank's overall portfolio, which exhibited net charge-offs (annualized) of 0.31% for the same period. Over the last fourteen years (from the beginning of 1989 through the third quarter of 2003), Colonial's ADC portfolio (annualized) likewise exhibited positive performance with net charge-offs over the period being 0.11%.

Indeed, our positive ADC experience fails to suggest that a bright line in the amounts of equity or pre-sold/pre-leased activity can be drawn in determining what leads a CRE loan to be considered low asset correlation or HVCRE. The portfolio's performance, we believe, can be contributed to numerous factors and advancements made in CRE lending and not isolated to one or two components. This is exemplified by our attempt to draw distinctions between performance levels and levels of equity and pre-sold/pre-leased activity on our ADC portfolio, as requested by the ANPR.[10]

One would assume that the loans exhibiting greater equity levels, i.e., credits with loan to value ratios of 50% or less, would have lower delinquency rates than the loans having 20% or less equity, i.e., credits with greater than 80% loan to value ratios. However, our analysis was inconclusive in this regard. Similarly, our analysis was unclear on the amount of pre-sold/pre-leased activity needed to produce a better loan. That is, we could not say that a particular loan with a low equity component was performing as expected due to its equity level or due to the level of its pre-sold/pre-leased component. This is because, for a given equity component, we may have several loans

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[9] *Id.* at note 2, (Commercial Real Estate is defined as including construction and land development loans, loans secured by multifamily residences, and loans secured by nonfarm, nonresidential real estate).

[10] Colonial currently maintains an ADC portfolio of approximately 600 loans. As of September 30, 2003, the delinquencies on this portfolio were .18% and .21% for 30-89 days past due and 90 days plus past due, respectively. Of these 600 loans, approximately 1/6th have loan to value ratios in excess of 80%, and approximately 1/6th have loan to value ratios less than 50%.

with varying degrees of pre-sold/pre-leased activity. The converse is likewise true in that for a given level of pre-sold/pre-leased activity, we may have several loans with varying degrees of equity. Because these elements cannot be individually viewed in a vacuum, no correlations can be made as to the levels that produce more stable credits, as they all performed to an equal degree. This was so despite their varying levels of equity and pre-sold/pre-leased activity.

Admittedly, these elements have a significant impact on credit quality, and we are not attempting to advance a conclusion otherwise. We are, however, stating that because virtually all ADC loans have elements of both equity and pre-sold/pre-leased activity, it is unclear to what degree each impacts a loan's performance. The suggestion here is that because our ADC portfolio has performed equally well at all levels, there must be other factors that contribute to loan performance besides these variables.

We are not alone in reaching such inconclusive results, as the Federal Reserve Board staff has similarly provided "[the] stated empirical evidence supporting the classification of ADC loans as HVCRE is not adequate to address the impact of borrower equity or repayment uncertainty."[11]

Accordingly, we believe that the increased risk weight function for HVCRE exposures does not comport with the actual loan loss experiences of these assets, and that any attempt to draw distinctions in this regard is highly speculative and in disregard of the complete underwriting process. Such speculation could lead to the denial of credit to numerous projects because of the higher capital charge they would carry if considered HVCRE. It is not difficult to envision a scenario where an otherwise credit worthy project is denied funds due to narrowly "missing the bar" in regard to an arbitrarily set equity or pre-lease requirement. Such a result will hurt all involved in the real estate sector because worthy projects may not receive the credit opportunities deserved.

As a final comment, use of this dual risk weight approach will encourage banks to manipulate the system by making several CRE loans to one project in order to "carve out" the portion that would be considered HVCRE. This seems counterintuitive to creating a stronger bank, and we see no tangible benefits to the banking system or economy in applying this approach. Consequently, Colonial advocates a unified treatment of CRE exposures which utilizes the wholesale risk weight function in its original form.

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[11]Case, *supra* note 4, at 46.

Bifurcated Application in the U.S.

We fear the bifurcated approach contemplated in the U.S. will create a competitive shift in favor of the largest U.S. banks. At the heart of the shift is the ability of the nation's largest banks (core and opt-in, which will utilize the A-IRB approach) to determine capital requirements based on their own internal estimates. Banks outside of the core and opt-in categories will not have the significant resources required to effectively implement Basel II, and consequently, will be barred from this practice. This advantage will likely manifest itself in well run banks operating under Basel II having capital requirements below that of banks operating under the original Basel Accord. Reduced capital requirements will allow these banks to employ their excess capital in profitable ventures and grow their ROEs in a disproportionate manner to smaller banks in the country.

Additionally, because of the ability to internally determine capital requirements, core and opt-in banks will be able to price their loans at more competitive rates than banks not operating under Basel II. Some have argued that regulatory capital has no impact on loan pricings by banks. In particular, the Vice Chairman of the Federal Reserve, Dr. Roger Ferguson, has stated:

> My perception is that pricing, and thus competition, between large and smaller banks *today* is relatively little influenced by regulatory capital constraints because banks are operating far above regulatory minimum levels, or because bank's economic capital and not regulatory capital is the binding constraint, or because banks are capable of easily selling or securitizing the exposure, as is the case with the majority of residential mortgage loans.[12] [emphasis added]

Colonial agrees that regulatory capital has little emphasis on bank loan pricing today. However, we also note that, today, for a given exposure, regardless of which bank holds the exposure, it will have the same risk weight, and thus, will command the same capital charge. However, under Basel II, and the A-IRB approach, core and opt-in banks will be able to determine risk weights for each loan based on their own internal

[12]Vice Chairman Roger W. Ferguson, Jr., *Basel II: A Realist's Perspective*, (April 9, 2003), <http://www.federalreserve.gov/BoardDocs/speeches/2003/20030409/default.htm> (speech given at the Risk Management Association's Conference on Capital Management, Washington, D.C.).

experiences. Thus, the same exposure could have a different risk weight, depending on which institution holds the asset.

> In particular, an important property of the A-IRB formulae is portfolio invariance. That is, the A-IRB capital requirement for a particular exposure generally does not depend on the other exposures held by the banking organization; as with general risk-based capital rules, the total credit risk capital requirement for a banking organization is simply the sum of the credit risk capital requirements on individual exposures or pools of exposures.[13]

Accordingly, if a particular exposure adds less to the capital requirements of a Basel II bank than it would to a bank operating outside of Basel II, logic dictates that the Basel II bank -- not needing the excess interest margin to increase or maintain reserves due to the addition of the asset -- could price the loan lower than a competitor needing to maintain a higher capital level due to the addition of the very same exposure.

Regulatory capital under Basel II will unquestionably impact loan pricing. In this instance, we believe the term "past is prologue," to be misleading. Today's loan pricing strategies containing homogeneous risk weights cannot foretell pricing strategies under Basel II. When risk weights are different for individual banks on the very same exposure, one must anticipate that this variable will be exploited. Needless to say, the negative impact on smaller and community banks is easily seen.

We are also concerned that the bifurcated system will lead to consolidation among the banking industry. When the advantages of operating under Basel II described above manifest themselves, smaller banks will be forced to consolidate if they wish to compete. This creates a Catch-22 for those that resist consolidation. When the markets perceive the positive impact Basel II may have on the bottom line of some banks, institutions not operating under Basel II may be pressured to opt-in. However, noting the significant costs associated with Basel II, banks that cannot make such a commitment may be left with no choice but to consolidate or risk seeing their market capitalization dwindle.

[13]Office of the Comptroller of the Currency, et al., *Advanced Notice of Proposed Rulemaking: Implementation of the Basel II Capital Accord*, at 35 (July 2003), <http://www.occ.treas.gov/>.

Exacerbate Economic Downturns

An expressed concern over the original Accord was its impact on the economy due to the imposition of fixed minimum capital requirements. The impact of such capital requirements constrain bank lending when capital becomes scarce. For example, a study conducted by the Basel Committee in April 1999 demonstrated that in certain countries, banks cut back lending in order to achieve higher capital requirements or to maintain existing requirements. This, in turn, impacted the overall economy and led to economic contraction.

> Reductions in lending by capital constrained banks reduces output in both the short run and the long. By either cutting off bank-dependent borrowers or by forcing them to employ more costly forms of credit, a reduction in bank lending can lead to a decline in investment demand. Holding other things constant, this decline in investment demand would be contractionary for the macroeconomy in the short run as firms might delay investment plans and shed workers.[14]

In a contracting economy, the lack of available credit only exacerbates the problem, with no funds to invest, businesses cannot create the output necessary to stimulate an economic recovery. The new Accord, because it likewise imparts minimum capital requirements, will have a similar exacerbating effect on the economic cycle. Furthermore, because of Basel II's differing risk weights from asset to asset, one can expect certain sectors of the economy which are associated with credits having higher risk weights under Basel II, to be hit harder than others, and at different points along the economic cycle.

Conclusion

We again thank the U.S. banking regulators for conducting the ANPR process and urge them to continue a diligent and methodical analysis of Basel II's impact on U.S. banks and the U.S. economy. As a nation, we have the most unique banking structure in the world, from small community banks to multi-billion dollar "megabanks," all of which

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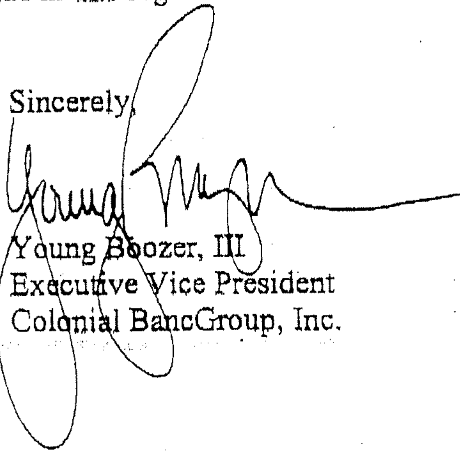
[14]Basel Committee on Banking Supervision, *Capital Requirements and Bank Behavior: The Impact of the Basel Accord,* at 28-29 (April 1999), <http://www.bis.org/publ/bcbs_wp1.pdf>.

are thoroughly and fairly regulated. We believe that Basel II was not drafted with such a unique banking structure in mind. Accordingly, we ask that the U.S. regulators hold firm in the face of international political pressure to approve Basel II despite its shortcomings, ensuring that the final Basel product is one that places U.S. banks on equal footing, both at home and abroad. We are confident that our banking regulators will not expose our unique banking environment to that which would do it harm.

We look forward to continued dialogue in this regard.

Sincerely,



Young Boozer, III
Executive Vice President
Colonial BancGroup, Inc.