**_FDIC Presses_ Bank Regulators to Use Warier Eye; Flagging Woes Now Will Bolster Insurer; The 'Camels' Rating**

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Washington -- The deteriorating condition of commercial banks is intensifying a debate among government officials over how to respond, illustrating the likely difficulties facing regulators bracing for a wave of bank failures.

In private meetings, Federal Deposit Insurance Corp. officials have pushed other agencies to more forcefully downgrade the confidential rating -- which is known only to regulators and bank management -- of troubled financial institutions, according to people familiar with the talks.

If the FDIC gets its way, it could result in more public enforcement actions and could give the FDIC more muscle to either force the companies to improve their balance sheets or seek a sale. It could also make it more expensive for companies to raise capital, as scrutiny from investors would likely spike.

The FDIC's push is being met with resistance from regulators with primary responsibility for these institutions.

For example, the Office of Thrift Supervision, a division of the Treasury Department that supervises more than 800 savings-and-loan institutions, largely focused on mortgage lending, has resisted the FDIC, arguing for a less-dire analysis, people familiar with the matter said.

FDIC officials have also tried to encourage other regulators, such as the Office of the Comptroller of the Currency, to downgrade more of the banks it supervises.

Regulators are struggling with one of the worst credit markets in decades amid questions about the adequacy of their existing patchwork of supervision. Only eight federally regulated banks or thrifts have failed this year, but more than 100 others are on the government's watch list. Many banks are struggling to raise capital and observers expect the frequency of failures to grow.

"The FDIC's job is to handle the failures, and it -- generally speaking -- would rather be tougher . . . on the theory that the sooner the problems are resolved, the less expensive the cleanup will be," said former FDIC chairman William Isaac, who now advises banks as chairman of consulting firm Secura Group. "The primary regulator tends to want to see if they can rehabilitate the bank and doesn't want to act precipitously as a rule."

The FDIC, led by Chairman Sheila Bair, backs the deposits of these companies, while the OTS, led by Director John Reich, is responsible for monitoring the safety and soundness of the S&Ls.

"Our examiners are very talented and take pride in doing a good job," said Scott Polakoff, senior deputy director at the OTS, who wouldn't comment directly on any tensions with the FDIC.

"The FDIC works cooperatively with primary regulators," FDIC spokesman Andrew Gray said. "Historically, the FDIC comes at determinations from the perspective of an insurer -- which tends to be a conservative point of view."

The disagreement centers on what is known as the Camels rating, a score between 1 and 5 that assesses an institution's financial position, based on areas such as asset quality and liquidity.

The best banks are rated as a 1 and the worst banks are rated a 5, and the ratings are never made public.

Banks rated 4 or 5 are put on the FDIC's problem list. The FDIC wants regulators to issue more 4's and 5's.

Of the 90 banks the FDIC listed as "problem" institutions at the end of the first quarter, just 12 were supervised by the OTS. IndyMac Bank, which was regulated by the OTS and failed July 11, wasn't on that list.

FDIC officials have struck the toughest stance thus far, in part because each bank failure diminishes the insurance fund it uses to back consumers' deposits, people familiar with the matter said.

Banks and thrifts with low capital must ask the FDIC for a waiver before they can accept a certain level of high-risk deposits. Of the 38 requests for waivers that the FDIC received in 2007, it granted 21. Through June 30, the FDIC received 51 requests for waivers andhad only granted 18.

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