ICBA
INDEPENDENT COMMUNITY BANKERS of AMERICA®

September 19, 2014

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Assessments; RIN 3064-AE16

Dear Mr. Feldman

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on a proposal by the FDIC to revise the ratios and ratio thresholds relating to capital evaluations for deposit insurance assessment purposes to conform to the new PCA capital rules under the Basel III capital rules.

Background

During 2013, the agencies adopted the Basel III capital rules which revised the thresholds for the tier 1 risk-based capital ratio used to determine a bank's capital category under the prompt corrective action or PCA rules (that is, whether the bank is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized). The new Basel III capital rules also added a new ratio, the common equity tier 1 capital ratio, and new thresholds for that ratio to determine a bank's capital category under the PCA rules. The new ratio and ratio thresholds will take effect on January 1, 2015.

The FDIC is now proposing to revise the definitions of well capitalized and adequately capitalized for deposit insurance assessment purposes to reflect the threshold changes for the tier 1 risk-based capital ratio, to incorporate the common equity tier 1 capital ratio and its thresholds, and, for those banks subject to the supplementary leverage ratio for PCA purposes, to incorporate the supplementary leverage ratio and its thresholds.

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[1] *The Independent Community Bankers of America® (ICBA), the nation's voice for more than 6,500 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.*

ICBA members operate 24,000 locations nationwide, employ 300,000 Americans and hold $1.3 trillion in assets, $1 trillion in deposits and $800 billion in loans to consumers, small businesses and the agricultural community. For more information, visit www.icba.org.

To be more specific, effective January 1, 2015, the FDIC proposes that for deposit insurance assessment purposes;

(1) an institution will be well capitalized if it satisfies each of the following capital ratio standards: Total risk-based capital ratio, 10.0 percent or greater; tier 1 risk-based capital ratio, 8 percent or greater (as opposed to the current 6 percent or greater); leverage ratio, 5 percent or greater, and common equity tier 1 capital ratio, 6.5 percent or greater.
(2) An institution will be adequately capitalized if it is not well capitalized but satisfies each of the following capital ratio standards: Total risk-based capital ratio, 8 percent or greater; tier 1 risk-based capital ratio, 6 percent or greater (as opposed to the current 4 percent or greater); leverage ratio, 4 percent or greater; and common equity tier 1 capital ratio, 4.5 percent or greater.
(3) The definition of an undercapitalized institution would remain the same—an institution will be undercapitalized if it does not qualify as either well capitalized or adequately capitalized.

ICBA Comments

ICBA still believes that the Basel III risk-based capital ratios should never have been applied to banks that are not defined as systemically important financial institutions or SIFIs, (i.e., should not apply to banks with consolidated assets of less than $50 billion.) The purpose of Basel III is to strengthen the regulatory capital framework for internationally active and interconnected banks by raising both the quality and quantity of their regulatory capital. This would allow the large internationally active banks to compete on a level playing field. To apply the complex risk weights and capital requirements of Basel III to a community bank is regulatory overkill.

However, even though community banks were not exempted from Basel III, ICBA appreciated the changes the regulators made regarding community banks in the final Basel III rules. More specifically, those adjustments included (1) banks not subject to the advanced approaches risk-based capital rules can continue to use current risk weights for residential mortgages when calculating risk-based capital, instead of eight separate risk buckets as proposed, and can take a onetime irrevocable option to permanently exclude accumulated other comprehensive income (AOCI) from regulatory capital calculations, and (2) the proceeds from trust preferred securities can continue to be permanently included in Tier 1 capital provided the TruPS were issued prior to May 19, 2010 for banking organizations that had less than $15 billion in assets as of December 31, 2009 or that were in mutual form as of May 19, 2010.

Since community banks will be subject to the Basel III risk-based capital requirements beginning January 1, 2015, we do agree with the FDIC that the ratios and ratio thresholds for capital evaluations used in its risk-based deposit insurance assessment system should conform to the prompt correction action capital ratios and ratio thresholds adopted by the agencies as part of Basel III. We agree that if the

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FDIC left the current capital evaluations for deposit insurance purposes in place, this would create unnecessary complexity and inconsistency between the ratios and ratio thresholds used to determine whether a bank is well capitalized, adequately capitalized or undercapitalized for deposit insurance assessment purposes and for PCA purposes. This complexity and inconsistency could lead to confusion and increase regulatory burden on community banks.

ICBA also supported the final supplementary leverage rule and supports the FDIC, effective January 1, 2018, adding the supplementary leverage ratio to its capital evaluations for deposit insurance assessment purposes to conform to the PCA capital rules for large banks. Accordingly, under the proposal, an advanced approaches bank, including an IDI subsidiary of a covered BHC, would have to have at least a 3 percent supplementary leverage ratio to be adequately capitalized, and an IDI subsidiary of a covered BHC would have to have at least a 6 percent supplementary leverage ratio to be well capitalized.

Conclusion

ICBA supports the FDIC proposal to revise the ratios and ratio thresholds relating to capital evaluations for deposit insurance assessment purposes to conform to the new PCA capital rules. This will make the two standards consistent and easier to work with.

ICBA appreciates the opportunity to comment on the FDIC proposal to revise the capital ratios and ratio thresholds relating to capital evaluations for deposit insurance assessment purposes. If you have any questions or would like additional information, please do not hesitate to contact me by email at Chris.Cole@icba.org or by phone at (202) 659-8111.

Sincerely,
/s/ Christopher Cole
Christopher Cole
Executive Vice President and Senior Regulatory Counsel