December 21, 2017

Legislative and Regulatory Activities Division
Office of Comptroller of the Currency
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Washington, DC 20219

Mr. Robert E. Feldman,
Executive Secretary
Attention: Comments ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Ms. Ann Misback,
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Regarding Notice of Proposed Rulemaking; Simplification to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1966; OCC Docket ID OCC-2017-0018, Federal Reserve Board Docket ID No. R-1576: RIN 7100 AE-74; FDIC RIN 3064-AE50

Dear Ladies and Gentlemen:

The Community Bankers Association of Illinois ("CBAI"), which proudly represents approximately 330 Illinois community banks, appreciates the opportunity to provide our observations and recommendations regarding the Office of the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation ("Agencies") joint

CBAI is dedicated to exclusively representing the interests of Illinois community banks and thrifts through effective advocacy, outstanding education, and high quality products. CBAI's 330 members hold more than $70 billion in assets, operate 860 locations statewide, and lend to consumers, small businesses, and agriculture. For more information, please visit www.cbai.com.

Notice of Proposed Rulemaking ("NPR" or "Proposal") regarding the simplification of capital rules pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1966 ("EGRPRA"). In March of 2017, the Agencies submitted a report to Congress pursuant to the EGRPRA in which they committed to meaningfully reduce the regulatory burden especially on community banking organizations. A majority of the Proposal's simplifications would apply solely to [community] banking organizations that are not subject to the "advanced approaches." The Agencies are proposing simpler capital treatment for mortgage servicing assets ("MSA"), certain deferred tax assets ("DTA"), investments in the capital of unconsolidated financial institutions, and capital issues by a consolidated subsidiary and held by third parties (minority interests). Finally, the Agencies are proposing a revision of the treatment of high volatility commercial real estate ("HVCRE") exposure under the capital rules "standardized approach".

While CBAI appreciated the Agencies' stated commitment to meaningfully reduce the regulatory burden especially on community banking organizations, the proposed regulatory relief in this NPR (in addition to the results to-date of the entire 2016 EGRPRA decennial review) have fallen short of the requirements of the EGRPRA and the reasonable expectations of community banks. **CBAI urges the Agencies to go much further in providing long-overdue and well-deserved meaningful regulatory relief for community banks.**

The NPR is noteworthy for what is not included in the Agencies' effort to provide capital regulatory relief for community banks. For example, an equitable Prompt Corrective Action ("PCA") framework has not been proposed. As the Agencies are well aware, during the financial crisis the largest banks (with their enormous capital deficiencies) received unprecedented financial assistance and accommodations and they survived while over 500 community banks were allowed to fail. **The Agencies have yet to propose equality in the actual application of the PCA and CBAI urges the Agencies to address this deficiency and eliminate the continued disparate treatment between the largest financial institutions and community banks.**

Community banks have repeatedly, and justifiably, maintained that the capital standards under Basel III should only apply to the largest, internationally active, and interconnected financial institutions. In a Joint Press Release dated December 4, 2017, the Agencies clearly agreed with the community bank position when they stated that the Basel III agreement "was designed for internationally active banks," to "improve risk sensitivity, reduce regulatory capital variability, and level the playing field among internationally active banks." Yet, Basel III requirements have been imposed on community banks and have frustrated their ability to lend and serve their communities**. The Agencies have yet to propose an exemption from Basel III and CBAI urges the Agencies to exempt all community banks under $50 billion in assets from these capital standards.**

The Agencies' regulatory capital requirements include inappropriate and punitive treatment for community banks' allowance for loan and lease losses ("ALLL"). Without question, the ALLL is loss absorbing capital. The full inclusion of the ALLL in regulator capital should be permitted regardless of the size of the allowance, and the first 1.25% should certainly be included in Tier 1 Capital. **The Agencies have yet to address this issue and CBAI urges the Agencies to approve our recommended treatment of the entire ALLL in community banks' regulatory capital.**

While it is unfortunate that the Agencies have yet to satisfactorily address equality in the PCA, a complete community bank exemption under Basel III, and the appropriate treatment of the ALLL in regulatory capital, the NPR did address HVCRE/HVADC and MSAs/DTAs. CBAI recommends the Agencies expand the regulatory relief proposed in this NPR as follows.

CBAI appreciates the simplification of the criteria of HVCRE loans but we remain concerned that the Proposal assigns a 130% risk weight to all ADC loans and does not differentiate between the risks within that category of loans. **CBAI recommends that properly underwritten ADC loans receive a 100% risk weighting (without limitations on the borrowers' investment or the debt service coverage ratio associated with the loans) for community banks with assets under $50 billion.**

CBAI has serious concerns with the treatment of MSAs, temporary difference DTAs, and investments in the capital of unconsolidated financial institutions. For many community banks the 10% individual and 15% aggregate threshold deduction was overly harsh capital treatment considering the high-quality of these banking assets - which include Trust Preferred Securities. CBAI appreciates the increase in the individual deduction threshold from 10% to 25% and the elimination of the aggregate deduction threshold, but we remain concerned that the Agencies have not gone far enough. **CBAI recommends the individual cap be raised to 50% of**

Common Equity Tier 1 Capital for community banks with assets under $50 billion. In addition, the risk weight assigned to these assets when they are not deducted should be reduced to 100%.

CBAI appreciates the opportunity to comment on this Proposal. If you have any questions or need additional information, please do not hesitate to contact me at (847) 909-8341 or davids@cbai.com .

Sincerely,

/s/

David G. Schroeder
Vice President Federal Governmental Relations

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