



April 5, 2019

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, DC 20219

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

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

Re: Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations – OCC Docket ID OCC-2018-0040, Federal Reserve Docket No. R-1638, FDIC RIN 3064-AE91

Dear Mesdames and Sirs:

The Community Bankers Association of Illinois (“CBAI”), which proudly represents approximately 320 community banks, appreciates the opportunity to provide our observations and recommendations on the Office of the Comptroller of the Currency, Board of Governors of

CBAI is one of the largest state banking associations in the nation. CBAI is a professional trade association representing 320 Illinois commercial banks and thrifts, and their 880 Illinois bank branches. Its members have nearly \$80 billion in assets and employ approximately 16,000 individuals. CBAI is headquartered in Springfield, Illinois, and was founded in 1974 to exclusively represent and serve the community-banking profession. For more information, visit www.cbai.com.

the Federal Reserve System and the Federal Deposit Insurance Corporation (collectively the “Agencies” or “Regulators”) Notice of Proposed Rulemaking (“Proposal”) that would “provide for a simple measure of capital adequacy for certain community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act [S. 2155].”

The Act requires the Agencies to “develop a Community Bank Leverage Ratio [(“CBLR”) - the ratio of bank equity capital to consolidated assets] of not less than 8% and not more than 10% for qualifying community banks [banks and holding companies with assets of less than \$10 billion in consolidated assets].” Qualifying community banks that elect and comply with the CBLR would be considered to have met the capital requirements for the “well capitalized” category under the Agencies Prompt Corrective Action (“PCA”) framework and would no longer be subject to the generally applicable capital rules.

CBAI has long been a proponent of simplified capital standards and opposed the Agencies imposing Basel III capital standards on community banks. In comment letters dated September 5, and October 15, 2012, which were in response to proposed rulemaking on minimum regulatory capital and the standardized approach for risk-weighted assets, CBAI stated that the Basel III was originally designed to prevent another financial crisis and to apply only to the largest, systemically important and internationally active banks and not community banks. In a comment letter dated December 21, 2017, CBAI stated the Agencies have fallen short of the EGRPRA requirements and urged the Agencies to go much further in providing meaningful capital regulatory relief for community banks. Unfortunately, the Agencies did not heed the reasonable recommendations of community banks and as a result, Congress was forced to intervene, and S. 2155 was enacted into law.

The Agencies have proposed a CBLR of 9% which does not provide the maximum available regulatory relief for community banks. Community banks did not cause the financial crisis, have traditional operations, uncomplicated financial statements, common-sense underwriting, and conservative lending, which promotes transparency and protects their capital from the devastating losses suffered by the largest banks during the recent financial crisis. Proposing the CBLR at the midpoint of what is permissible under the Act will deny approximately 600 additional community banks from this meaningful regulatory relief which was envisioned by the passage of the bipartisan comprehensive regulatory relief legislation. Setting the CBLR below

9% is warranted in that it is closer to the current risk-based capital requirements for “well capitalized” banks – including the common equity tier 1 ratio of 6.5%, the tier 1 risk-based capital ratio of 8%, and the current leverage requirement of 5%. **CBAI urges the Agencies provide the maximum available relief to community banks by decreasing the proposed CBLR from 9% to 8%.**

The Regulators are also proposing a new PCA framework for the treatment of qualifying community banks that fall below the CBLR – with new thresholds for “adequately capitalized”, “undercapitalized” and significantly undercapitalized” community banks. CBAI believes these thresholds are unnecessary, will have harmful unintended consequences, and run counter to Congressional intent to provide meaningful regulatory relief through capital simplification for community banks. The CBLR would become the *de facto* minimum capital requirement and community banks wishing to opt-out will find it difficult to return to compliance with the more complicated risk-based capital requirements. **In the unfortunate event the proposed PCA framework is implemented, CBAI recommends that, before being downgraded to “adequately capitalized”, qualifying community banks (which have opted-in to the CBLR) should receive assistance and reasonable time to either 1) return to being “well capitalized” under the new framework; 2) demonstrate that they are “well capitalized” under the current framework; or 3) opt-out and go back to complying with the complex risk-based capital requirements under the current framework.**

Thank you for the opportunity to comment on this important Proposal for community banks. If you have any questions, please feel free to contact the undersigned at 1-847-909-8341 or at davids@cbai.com.

Sincerely,



David G. Schroeder
Senior Vice President
Federal Governmental Relations