From: Jon Drake <jdrake@peoplesbanktexas.com>
Sent: Thursday, April 04, 2019 2:08 PM
To: Comments
Subject: Federal Reserve: Docket No. R-1638; FDIC: RIN 3064-AE91

Dear Executive Secretary Feldman,

Please consider my comments on your proposal to establish a "community bank leverage ratio" (CBLR) to implement Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA"). I applaud both Congress for passage of this important bill, and for your efforts in attempting to implement Section 201 to provide very important regulatory burden relief for community banks.

My bank is located in Lubbock, Texas, has $514 million in assets, Tier 1 leverage of 10.54% and Tier 1 risk based capital ratio of 14.26%. We have eight branches, 5 of which are located in rural ag communities in West Texas. As you can see, we have more than 2x the "Well Capitalized" Tier 1 Level and almost that same overcapitalization for "Well Capitalized" for Total Risk Based Capital. Still, we are held to a higher standard (above 10% Tier 1) since we have ag concentrations; however, our losses on ag related loans for the past 20 years has been approximately 12bp.

The current risk based capital calculations are complex at best, and do not appear to be designed for the community bank model. Regardless of the outcome of a final rule, I urge you to revisit the calculation of risk based capital for community banks.

We are very familiar with the calculation of Tier 1 Leverage Ratios, and are required to provide this information on our quarterly call report submissions, you are proposing yet another leverage capital calculation. We would appreciate not having another capital ratio to calculate, especially as we may determine that we will ultimately need to shift between the CBLR and the current risk based capital calculation. Moreover, we may be disqualified from the new ratio because of the unfunded commitments and FHLB Letter's of Credit. This is a real concern early in the year as we set our ag lines up but do not yet fund them. The combination of these two items could cause us to go over the 25% limit and thus be ineligible for the new capital ratio. And we have not fundamentally changed our operations and are operating within normal cyclicality. At a minimum, I think the FHLB advances should be eliminated from the calculation. Those are secured advances and usually done at a steep discount to underlying loan collateral. They are also used to augment liquidity by keeping securities unpledged. This treatment vs. regulatory views on liquidity seems inconsistent.

We are also especially concerned with the creation of a new Prompt Corrective Action (PCA) Framework, and believe that the current matrix should suffice. Community banks are especially sensitive to the restrictions on funding options, inability to branch or make acquisitions and other problematic issues that are realized with a "less than well capitalized" position. We urge you to reconsider this unnecessary provision.

While determining an appropriate level of capital is challenging at best, it would appear that an 8% leverage ratio, especially with the impending and unwelcome addition of CECL forthcoming, is appropriate for well-rated and well-run community banks. Regulators should and always will have the ability to demand additional capital when necessary. However, we understand the laws constraints (between 8-10%) and would be happy with a 9% ratio limit.

We very much appreciate the efforts of the regulators to address this "simplification" of community bank capital requirements and calculations, it still remains significantly complex and potentially difficult to implement. Our bank will look forward to the final rule prior to making any decisions to hopefully take advantage of this very welcome regulatory burden relief.

Sincerely,

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