From: Anita Drentlaw <adrentlaw@newmarketbank.com>
Sent: Sunday, April 07, 2019 4:24 PM
To: Comments
Subject: Regulatory Capital Rule: FDIC RIN 3064-AE91

Dear Chair McWilliams,

As a fourth-generation, MN community banker, I would like to respond to your proposal of establishing a community bank leverage ratio ("CBLR") as a way to simplify the capital requirements for community banks. Specifically, the proposal calls for the establishment of a CBLR consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act that would allow banks and holding companies of less than $10 billion in assets with a tangible equity-to-assets leverage ratio of greater than 9% to opt into a CBLR framework and not be subject to other risk-based and leverage capital requirements. These banks would also be considered “well-capitalized" under the banking agencies' Prompt Corrective Action (PCA) framework.

While I appreciate the agencies for several parts of the proposal, particularly the ease at which community banks may opt-in and opt-out of the CBLR framework, the proposed CBLR of 9% is too high. We are a community bank who has been in existence for more than 100 years. We are only $110MM in assets and are family owned and operated. Most of our profits earned are kept in capital as we have no other sources of capital to allow us to stay family-owned and operated. We are fortunate enough to be in the Minneapolis-St. Paul suburbs which has allowed us several opportunities for growth. Growth in loans and deposits however often does not allow your capital to grow at the same rate. Although we have been able to maintain a tangible equity-to-asset ratio of approximately 8% even through the “Great Recession”, the burden to get to 9% would cause us to have to shrink the bank. The commitment to our community to provide credit and offer a community bank relationship to our customers is of the ultimate importance to us which does not fit with the strategy to become smaller. I believe there are several other community banks similar to us and our situation.

Establishing the ratio at 8%, as allowed by the statute, would calibrate the CBLR closer to current risk-based capital requirements for well-capitalized banks including the common equity tier one ratio of 6.5% and the tier one risk-based capital ratio of 8%. Furthermore, an 8% CBLR would put the ratio closer to the current 5% leverage requirement for well-capitalized banks and would allow approximately 600 more community banks to be eligible to use the new framework.

The proposal to establish a new and separate PCA framework within the CBLR framework is not necessary and could result in harmful unintended consequences. There is no need to establish "proxies" under the CBLR framework for adequately capitalized, undercapitalized and significantly undercapitalized PCA thresholds. Such proxies could serve as an unwarranted penalty for banks that elect the CBLR. I believe several banks may in fact not elect the CBLR because of this possible penalty. Instead, a CBLR bank that falls below the CBLR should be given the opportunity to demonstrate that it is well-capitalized under the current PCA Framework before being downgraded to adequately capitalized. To do otherwise could result in the CBLR becoming the new, de facto minimum capital requirement for CBLR banks.

In addition to establishing the CBLR, the banking agencies should continue their efforts to simplify Basel III to reduce the regulatory burden that community banks experience when complying with risk-based capital requirements. Currently, the reporting for risk-based capital on the call report takes our small community bank almost a full day - just as long as completing the rest of the call report schedules. Simplifying the reporting structure for all community banks, even if they don’t elect the CBLR framework, would be significant regulatory relief. The previous reporting prior to Dodd-Frank and the “Great Recession” was significantly less time consuming than it is now and may be an option to simply reporting for banks not electing CBLR. The additional risk-based reporting was a result of a financial crisis that was not caused by community banks; however, the reporting burden is not right-sized for the risk any community bank poses on the economy.

Sincerely,

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