January 16, 2024

VIA E-MAIL ONLY

Chief Counsel's Office,
Attention: Comment Processing,
Office of the Comptroller of the Currency
400 7th Street SW,
Suite 3E-218

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

James P. Sheesley,
Assistant Executive Secretary,
Attention: Comments/Legal OES (RIN 3064–AF29),
Federal Deposit Insurance Corporation,
550 17th Street NW,
Washington, DC 20429

RE: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity; RIN 3064–AF29

Dear Ladies and Gentlemen,

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing nearly 200 state and nationally chartered banks, savings banks, and savings and loan associations of all sizes located in Wisconsin, their branches, and over 30,000 employees. WBA appreciates the opportunity to comment on the Office of the Comptroller of the Currency, Treasury, and Board of Governors of the Federal Reserve System's (collectively, the Agencies) proposal to revise the capital requirements applicable to large banking organizations and to banking organizations with significant trading activity (proposal).

Regulatory capital is central to the supervisory process. It allows institutions to continue operating during adverse financial periods, promote public confidence, and protect depositors and the deposit insurance fund. Regulatory capital rules set forth minimum capital ratio requirements and generally follow a framework of standards adopted by the Basel Committee on Banking Supervision.

The banking industry also agrees with the importance of maintaining strong capital levels. Banks in the Midwest have traditionally adopted a conservative approach with regard to this framework, and Wisconsin banks in particular are generally well capitalized. While the Agencies have proposed changes in broad alignment with these standards, WBA asserts that this comes at a time when the banking industry is generally sound and is concerned that it will potentially negatively impact credit availability and overall functioning of capital markets. The capital charges in the proposal rise significantly for loans with higher loan to value (LTV) ratios. As identified by the Urban Institute, the proposed risk weights for residential mortgages would create significant additional charges for consumers. The credit risk weight for balance-sheet mortgages would increase from 50 percent to as high as 90 percent, and the risk weight for loans sold to the Government-Sponsored Enterprises (GSE) could increase to over twice their present values. As a result, the proposal's largest impact would be on loans with loan to value ratios above 80 percent. Loans made to first-time homebuyers sold to the GSEs, as well as those retained by banks, and those made to lower-income borrowers often feature higher LTVs within the impacted ranges. As a result, WBA is concerned that the proposal's treatment of high LTV mortgages would make home purchase loans less affordable or altogether unattainable for certain households.[1]

WBA is aware of the community bank leverage ratio framework, which provides a reduced burden for many Wisconsin banks by removing requirements for calculating and reporting capital ratios for community banking organizations. As a result, the proposal as currently drafted would only apply to those institutions with $100 billion or greater in assets. Nonetheless, the industry has experienced similar proposals which initially only apply to very large banks, only to expand in scope overtime and eventually include all banks.

The proposal itself is the subject of a flawed process by failing to provide adequate supporting data. For example, as discussed above, the proposal adjusts mortgage loan risk weights. The Agencies began this process with the risk weights assigned by the Basel Committee in 2017 then added 20 percentage points to each category. The result is credit risk-capital requirements for residential real estate exposure up to twice as large as those by Basel standards. This increase has been proposed with no data or explanation to justify the use of Basel Committee risk weights as a starting point or the added 20 percentage points. This arbitrary increase, along with comments already submitted by others, concerns WBA that the proposal relies on insufficient supporting data and analysis. The Agencies must withdraw the proposal and provide data and transparency before implementing any Basel III reforms. Without compelling data, WBA is concerned that the proposal comes at an unsupported cost to both banks and consumers.

Conclusion

WBA appreciates the opportunity to comment on the Agencies proposal to revise the regulatory capital requirements. However, without adequate data and transparency to substantiate the significant adverse changes outlined in the proposed rule, the proposal must be withdrawn.

Once again, WBA appreciates the opportunity to comment.

Respectfully,

[redacted]

Rose Oswald Poels
President/CEO

[1] https://www.urban.org/sites/default/files/2023-09/Bank%20Capital%20Notice%20of%20Proposed%20Rulemaking.pdf