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United States Senate

WASHINGTON, DC 20510-2309
October 5, 2012

The Honorable Ben Bernanke
Chairman
The Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20429

The Honorable Tom Curry
Comptroller
Office of the Comptroller of the Currency
250 E St., SW
Washington, D.C. 20219

The Honorable Marty Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429

Dear Chairman Bernanke, Comptroller Curry and Acting Chairman Gruenberg:

I write today to bring your attention to an important issue facing Minnesota's community banks. The proposed capital rules under the implementation of Basel III are likely to impact small community banks in Minnesota very differently than large Wall Street banks, and I urge the regulators to keep these differences in mind as you finalize these rules.

In Minnesota, three out of four community banks are organized under Subchapter-S rules—a much higher percentage than in other states. Community banks, and Subchapter-S banks in particular, have little or no access to complex capital markets, making compliance with the proposed rules difficult.

Regulators should also consider the portfolios of community banks compared to large banks. Three out of four loans made by community banks are for real estate or use real estate as collateral. The proposed standards' effect on real estate loans, including residential loans, is a major cause for concern among Minnesota's community bankers. Additionally, community banks around the country are considerably smaller and would find compliance more difficult than those banks with larger staffs. Consider a typical community bank in Minnesota with about \$40 million in assets and 15 employees—for example, the State Bank of Lismor. Many of Minnesota's banks are located in rural communities, where they are the primary source for small business loans.

Appropriate and sound capital standards are essential to the stability of the financial sector. I fully support your efforts to improve and enhance these standards in the wake of the recent financial crisis. While you finalize these important regulations, I ask that you keep the impact on Minnesota's community banks in mind.

Sincerely,

Al Franken
United States Senator