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October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Docket ID OCC-20120008: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] (the "Proposed Regulations") that were recently published by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

I am the Chief Executive Officer of the National Consumer Cooperative Bank, an entity formed by Congress pursuant to the National Consumer Cooperative Bank Act (12 U.S.C. 3001 *et seq.*) and its wholly owned subsidiary, NCB, FSB, a federally insured depository institution (together, "NCB"). The mission of the Bank is to provide financial and related services to cooperative enterprises throughout the United States. We are dedicated to strengthening communities nationwide through the delivery of banking and financial services, complemented by a special focus on cooperative expansion and economic development. Primary markets we serve include: single family and multifamily cooperative housing, cooperative small businesses (including hardware and grocery stores), as well as education and healthcare. In addition, NCB has a retail banking network in southwestern Ohio.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

NCB is in favor of strengthening the capital requirements for banks so that our industry is better able to handle market downturns and disruptions such as the one from which we are currently recovering. Increasing minimal capital standards and creating a new minimum common equity tier 1 capital ratio make sense for our industry. However, we have some concerns about the proposals approved by the agencies we would like to address. Our comments and/or recommendations are as follows:

1. ***Definition of 1-4 family residential property to include Share Loans***. One of NCB's core businesses is to originate residential single family loans to residents of housing cooperatives. While housing cooperatives and condominiums are alike in many ways, the legal structure is very different and as a result, the loan structure must be as well. With a loan to a resident owner in a cooperative building, the lender is not secured by the apartment itself (as is the case with a condominium), but instead by a the resident's share of stock in the residential cooperative building and a security interest in the associated "proprietary lease" that gives the resident the exclusive right to occupy his or her unit in the building. These loans are generally referred to as "share loans" because the share of stock is the security taken by the lender.

   For most regulatory purposes, share loans are treated the same as other single-family mortgages. For example, the Call Report Instructions at RC-C1 define loans secured by 1-4 family residential properties to include loans secured by "Individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units." See Part 1, Item No. 1(c)(3).[2]

   We do not see share loans specifically included in a definition of "one-to-four family residential property" in the Proposed Regulations and we believe it would be helpful to do so as in other regulations.

2. ***Risk-weighting changes for Residential Mortgage Loans*** – The Proposed Regulations incorporate different risk weightings for loans with different Loan to Value ratios. Although we do not anticipate that these risk-weighting changes will be materially adverse for our institution given our generally low LTV ratios at origination, the changes would require significant changes to our reporting systems and would therefore be time consuming and costly. Also, we believe the LTV amounts should be calculated after deducting the amount of any PMI. It appears the proposal would exclude any PMI from the calculation. Exempting institutions with assets under $10 billion from the Standardized Approach NPR would make more sense as the types of alternative mortgage loans addressed here are unlikely to be an issue for many smaller banks and would address the disproportionate cost borne by such smaller institutions to implement the reporting changes.

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[2] Other examples include the lending limitations under the Home Owners Loan Act ("HOLA"), in which a share loan is treated just as any other residential loan. See 12 C.F.R. § 160.30 note 9 ("home (or residential) loan includes loans secured by one-to-four family dwellings, multi-family residential property, and loans secured by a unit or units of a condominium or housing cooperative."). Similarly, the Truth in Lending Act rules expressly provide that cooperative share loans are residential mortgages for purposes of the regulations. 12 C.F.R. § 226.2(a)(19)(definition of "Dwelling" includes cooperative units).

3. ***Risk-weighting changes for Delinquent loans*** – We believe that increasing the risk weighing of loans delinquent greater than 90 days from 100% to 150% is not necessary since the allowance for credit losses on loans automatically reduces capital and therefore adequately provides for these delinquencies. Most of these loans would already be evaluated for impairment and written down to fair value. Assigning a 150% risk weighting would therefore cause a double hit to capital for reporting purposes.

4. ***Capital Deductions for Mortgage Servicing Assets*** – Currently, the portion of mortgage servicing assets that is greater than 90% of fair value is deducted from Tier 1 capital. Under the proposed rule, mortgage servicing assets above a certain threshold (10% of Capital) would be further deducted from capital with the remainder risk-weighted at 250%. For NCB, like most banks, maintaining servicing on residential loans ensures that our customers continue to be served by NCB personnel, even after the loan is sold in the secondary market. This ensures continuity of service for our customers while allowing us to fund additional loans and remove credit risk from our balance sheet. We feel we have an obligation to and are more effective working with our customers in cases where they experience financial difficulty. NCB believes that the proposed rules are in opposition to good public policy and that the increased capital required to service mortgage loans will cause financial institutions to exit the servicing business. This, in turn, will have an adverse impact on our customers and our industry.

   NCB also feels that the proposed rule could affect certain institutions differently. This is particularly true for NCB given the nature of the MSRs it holds. A significant factor in the valuation of MSRs is the prepayment optionality of the underlying collateral (typically single family loans). The majority of the MSRs generated by NCB relate to commercial mortgages which typically contain prepayment prohibitions ("lockouts"), often followed by prepayment penalties. As a result, the MSRs related to loans with these characteristics are subject to much less price volatility than traditional MSRs. Current regulation already requires NCB to record capital deductions. The changes in the proposed rule could require us to record additional capital deductions which would make it much more difficult for us to continue to provide service to our customers.

5. ***Phase out of Trust Preferred Securities*** – Trust preferred securities should be grandfathered as called for in the Dodd-Frank Act. This source of capital will be difficult to replace for many smaller banks such as ours.

NCB supports an increase in the amount of capital that banks hold. We urge you to consider the issues above when finalizing these Basel III Notices of Proposed Rulemaking.

Thank you for your consideration.

Sincerely,

Charles E. Snyder
Chief Executive Officer