



December 21, 2017

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, S.W.
Suite 3E-218, Mail Stop 9W-11
Washington, D.C. 20219
OCC; Docket ID OCC-2017-0018

Ms. Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Docket No. R-1576; RIN 7100 AE-74

Mr. Robert Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
RIN 3064-AE59

Re: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996

Dear Ladies and Gentlemen:

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing approximately 230 state and nationally chartered banks, savings and loan associations, and savings banks located in communities throughout the state. WBA appreciates the opportunity to submit comments particularly on the proposed simplifications to the capital rule for community banks. As WBA stated previously in comments supporting delay of the implementation of the capital rule, we believe simplification to the rule is warranted. We agree with the Agencies that this is an appropriate time to consider the effectiveness of prudential supervision standards implemented in recent years, with a view toward how they can be improved. The areas of greatest concern to us in the proposal are the treatment of certain assets and capital instruments, and the new definition of high volatility acquisition, development, or construction (HVADC) which would replace the current definition of high volatility commercial real estate (HVCRE). We offer the following comments on these topics.

Treatment of Certain Assets and Capital Instruments

WBA appreciates the proposed increase in deduction thresholds for mortgage servicing assets (MSAs), temporary deferred tax assets (DTAs), and investments in the capital of other financial institutions. The current individual deduction threshold of 10% and aggregate deduction threshold of 15% are far too low and have harmed community banks who have long held high quality banking assets like MSAs, etc. The

current thresholds have decreased the price for these assets, and thus, demand for them at market. This has made their disposition costly and difficult for banks, particularly as such banks attempt to maintain a healthy capital level under Basel III.

WBA certainly appreciates the proposed elimination of the aggregate deduction threshold, but is concerned that the proposed increase to 25% for the individual deduction threshold falls short in achieving regulatory relief. We are further concerned that the 25% individual deduction threshold will be too low to ensure these types of assets are not criticized unfairly when they otherwise provide quality future earnings for community banks. To avoid these concerns, WBA urges the Agencies to increase the individual threshold to 50% of common tier 1 capital for community banks. In addition, we urge the Agencies to assign a risk weight of 100% when these assets are not deducted.

Finally, with respect to trust preferred securities (TruPS), WBA also strongly urges the Agencies to completely exclude from the deduction from capital grandfathered existing TruPS held by these banks. If the Agencies are unwilling to do so, WBA strongly recommends TruPS be subject to the same treatment noted above for MSAs and other assets.

HVADC

WBA appreciates the Agencies' efforts to simplify the HVCRE rules. Without a doubt, the HVCRE capital requirements have been confusing and problematic from the very beginning of Basel III implementation, and simplification of the criteria for identifying those AD&C loans needing a higher risk weight are long overdue. In addition, the process of evaluating particular loan attributes that could give rise to HVCRE designation is expensive, time consuming, and diverts community bank resources from other important management decisions and activities.

WBA acknowledges the Agencies' efforts to simplify the rules by advancing the proposed amendment to assign a 130% risk weight to all AD&C loans on a default basis; however, we believe this treatment penalizes quality construction and development loans while at the same time correcting the pitfalls of the HVCRE identification burden. By doing so, the Agencies have corrected an existing burden by creating a different burden—a consequence that WBA expects the Agencies did not intend.

AD&C loans originated at community banks do not automatically subject the bank to increased credit risk simply because they involve property improvement projects. WBA believes community banks are in the best position to understand the underlying economics behind a specific construction project, the viability of the project, and the ability of the borrower and any security interest to protect the bank against future credit losses.

In addition, WBA has concerns that otherwise common-sense construction projects that should be financed by community banks will either not be started at all or financed through nonbank lenders at unfavorable terms to the borrower. The AD&C loans that finance many construction projects create jobs across the country that provide both temporary and permanent employment opportunities in many rural and underserved areas.

WBA urges the Agencies to revisit the 130% risk weight for all AD&C loans and propose an alternative to the capital treatment that more fairly recognizes the value that these loans provide to borrowers and their communities. For these reasons, WBA urges that the current prospective suspension of HVCRE assets be finalized and the proposed HVADC not been implemented. Instead, we request the Agencies

allow for all prudently underwritten AD&C loans to be risk weighted at 100% without limitations on the borrower's investment or the debt service coverage ratio associated with the borrowing arrangement.

If the Agencies are unwilling to implement WBA's recommendations, we request the Agencies to adopt the HVADC definition which: (1) excludes AD&C loans not secured by real estate from the definition of HVADC, and reduces the risk weight for real-estate secured AD&C loans to 100%; (2) maintains the 15% contributed capital exemption criterion; (3) clarifies that bridge loans not meeting the primarily finances or refinances test be excluded, and remove the statement that a permanent loan does not include "a loan that finances or refinances a stabilization period"; and (4) clarifies the primarily finances or refinances test should be assessed at loan inception.

Conclusion

WBA applauds the Agencies' acknowledgment of the adverse impact the Basel III rules have had on banking organizations like members, and appreciates the Agencies' efforts to simplify the rules to reduce that impact. WBA also appreciates the opportunity to comment on these important matters.

Sincerely,



Rose Oswald Poels
President/CEO