From: Joseph Witt [mailto:JOEW@minnbankers.com]
Sent: Wednesday, October 17, 2012 9:33 AM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

I am writing to provide comments on the FDIC's Basel III Capital proposal. The Minnesota Bankers Association is the largest trade group representing Minnesota banks. There are 390 bank members in our association, which includes a few large regional banks and also includes hundreds of small community banks. The median sized-institution in our state had roughly $90 million in assets. There are 58 banks with $30 million in assets or less.

The proposed capital rules will have a negative impact on our state's banks, and they will have an especially significant impact on our small community banks. We urge you to adopt final rules that are more appropriate for the size, business model and risk of our community banks. Our members are straightforward banks, offering very traditional banking products. The typical Minnesota bank should not need to wade through 700+ pages of rules to determine if they have enough capital.

The FDIC is undertaking a study on "The Future of Community Banking." I applaud Acting Chairman Gruenberg for conducting this study. There are very real challenges facing community banks, especially the small community banks. Those challenges are causing bank owners to exit the business. Our state's bank numbers are telling. On June 30, 2002 Minnesota had 494 bank charters. As of June 30, 2012 we were down to 383, and the rate of mergers and acquisitions shows no signs of slowing down. In fact, two more of our community bank owners just announced that they are selling their banks.

In announcing the FDIC study, Acting Chairman Gruenberg noted that community banks face several specific challenges, including keeping up with technology, attracting and retaining qualified employees, raising capital and complying with the ever-increasing regulatory burden. If the FDIC adopts this Basel III proposal your agency will be making the last two of those challenges significantly worse. To Acting Chairman Gruenberg: this proposed capital regulation is a perfect example of what is killing the community banks.

The goal of Basel III seems to be ensuring that the capital standards for banks are consistent on an international basis. That probably makes sense for banks that are active in international markets. However, most of the small, closely held banks in Minnesota do virtually no international business and make no attempt to attract international investors. Is it really that important that the $21 million bank in Hamburg, MN and the $19 million bank in Okabena, MN have the same capital standards as Deutsche Bank and the Royal Bank of Scotland?

The regulators have stated that, today, most community banks would have enough capital under the Basel III rules. That statement provides little consolation. The issue is not just the final number; we are equally as concerned about how you get there. Every bank will now need to spend an inordinate amount of internal staff time calculating capital ratios under the new rules. Then, their external auditors will need to spend large amounts of time verifying capital levels. In the audit world "time," of course, means "money." Finally, the regulatory agencies will need to examine banks to ensure their calculations, procedures and processes are all correct. The additional time and resources banks will need to spend calculating their capital ratios on an ongoing basis will be a huge drain on the banks.

For the typical community bank, the additional time and resources spent on complying with Basel III will be a complete waste. From a cost-benefit analysis, banks will incur huge costs, but banks will get virtually no benefit. At a time when bank earnings are already compressed, the exercise of proving to bank auditors and examiners that you have enough capital under the Basel III rules will do nothing but directly hurt the banks' bottom line. As an expense item with no real benefits, these rules will impede the banks' ability to serve their customers and communities.

There will be substantive changes within the rules that impact bank capital positions. Specifically, our member banks have grave concerns about the proposed rule's treatment of first mortgage loans. All banks will need to review every mortgage loan in their portfolio to determine which of the eight different risk weight categories applies to each loan. What a nightmare. Our member banks also have concerns about the proposed rule's treatment of second mortgages, trust preferred securities, and mortgage servicing assets. They are also very concerned about the proposed rules with respect to unrealized gains and losses on available for sale securities, especially because weak loan demand has caused banks to add to their securities portfolio at a time of extremely low interest rates. If the regulators adopt this portion of the proposed rule, banks will almost certainly be forced to raise additional capital when market conditions change.

The agencies should scrap this proposal, replacing it with a rule that is more appropriate for the size, business model and risk of the community banks. This current proposal has serious flaws that will damage community banks and their ability to serve their customers and their communities.

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PLEASE NOTE OUR NEW ADDRESS: We have NOT moved but due to the 494/169 construction our address has permanently changed to:
8050 Washington Ave. South, Eden Prairie MN 55344.