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Federal Deposit Insurance Corporation
Washington DC 20429

Office of Legislative Affairs

OFFICE OF LEGISLATIVE AFFAIRS
CORRESPONDENCE ASSIGNMENT

LA 12-0718 ASSIGNED TO: COMMENTS DATE: 10/12/2012

CORRESPONDENT: HONORABLE WICKER, ROGER
REPRESENTATIVES, U.S. CONGRESS
WASHINGTON, D.C. 20515

CONGRESSMAN WICKER AND OTHERS HAVE CONCERN FOR THE PROPOSED RULE ON BASEL III.

THE ATTACHED CORRESPONDENCE HAS BEEN ASSIGNED TO COMMENTS FOR INFORMATION.

IF YOU HAVE ANY QUESTIONS RELATING TO THIS ASSIGNMENT, PLEASE CONTACT THE CORRESPONDENCE UNIT OF THE OFFICE OF LEGISLATIVE AFFAIRS AT 898-7055.

DISTRIBUTION:

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LA 12-718

Congress of the United States
Washington, DC 20510

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OFFICE OF LEGISLATIVE AFFAIRS

September 28, 2012

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

The Honorable Tom Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, S.W.
Washington, D.C. 20219

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Dear Chairman Bernanke, Comptroller Curry, and Chairman Gruenberg:

We are writing to express our concerns with the Basel III standards that were recently proposed for our nation's financial institutions. We encourage you to amend the standards to better ensure that they are appropriate to each covered institution's size, scale, and complexity.

While recognizing that capital is extremely important to the strength of our nation's financial institutions, we are concerned that the proposed standards, which are designed for the management of large, complex risks, impose a disproportionately heavy compliance burden on the nation's community and regional banks. A capital regime as complex as the one proposed may not be necessary to ensure the soundness of every bank in our financial system, and could have significant, negative consequences for certain banks, their customers, and their communities.

We are especially concerned about these standards' potential impact on the approximately 6,800 community banks with less than $1 billion in assets. Such banks, which represent only about 10 percent of industry assets, lack meaningful access to the capital markets on which larger banks rely for capital. These banks therefore face very different challenges to raising capital. Although we recognize that compliance with the Dodd-Frank Act results in higher risk weights, we believe that any new capital standards should reflect the relatively higher burden to community banks in raising shareholder equity.

We are troubled by the negative impact that the proposed standards could have on the availability of mortgage credit. This is a particular concern in Mississippi, where local banks can be the only source of affordable mortgage lending in a community. Mississippi banks provide many small mortgage loans that make an enormous difference in the lives of the borrowers, but under terms that would disqualify the loans for sale in the secondary market. The proposed standards would increase the risk-weighting of such loans, however, requiring banks to have additional capital. The added compliance burden could lead banks in our state to substantially curtail the availability of this vital source of mortgage financing to residents of their communities.

We note, too, that despite the recent wave of bank failures across the nation, community banks in our state have remained virtually failure-free. Mississippi's example suggests that, at least among the nation's community and regional banks, capital levels are just one facet of effective bank risk management.

For the above reasons, we are concerned that the proposed standards, if adopted in their current form, could accelerate the recent trend toward consolidation in the banking industry. It is important to nurture the survival of the nation's smaller banks, which play a vital role in small business and agricultural lending, and which often are the only entities willing to offer small loans in their local communities. Adopting a highly complex, "one size fits all approach" to capital standards should be avoided if it would undermine these banks' viability or lead them to curtail lending activity in already underserved areas of the country.

In closing, we respectfully urge you to examine carefully the likely effects of the new capital standards on the continued viability of our nation's community and regional banks, and amend these standards as necessary to ensure that our concerns are resolved.

Sincerely,

Roger F. Wicker
United States Senator

Thad Cochran
United States Senator

Bennie G. Thompson
United States Representative

Gregg Harper
United States Representative

Alan Nunnelee
United States Representative

Steven M. Palazzo
United States Representative