



October 18, 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: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the “banking agencies”).

The majority of my professional career has been with African American owned and operated financial institutions. These institutions were created with the primary purpose of serving the historically under-served African American community. One common challenge with the formation of African American financial institutions has been the ability to raise capital.

While majority banks can raise \$5,000,000 to \$25,000,000 to start a new Bank, one of my former employers needed over 1,000 shareholders to raise \$750,000 to open its doors. That institution did not have \$3,000,000 in capital until the bank was 25 years old. Despite its limited resources, this Bank made a tremendous impact on the community it supported. From loans to job producing small business and churches to its “No Strings Attached” scholarships given to area high school seniors, This community Bank made a positive difference.

I am currently the Regional President for Liberty Bank and Trust Kansas City operations. Since its humble New Orleans (LA) beginnings, Liberty Bank and Trust has expanded its footprint to Baton Rouge (LA), Jackson (MS), Kansas City (MO & KS) and Detroit (MI). While we are a bank for all people, our mission remains focused on serving the under-served communities we were created to support.



You should know that the regulatory capital rules of Basel III pose a tremendous risk on the survival of African American owned Banks. As a result, I am writing this letter is to express my concerns and fears regarding the Basel III proposals. Please support our efforts to have community banks in general and minority banks in particular, fully exempt from the burdensome capital requirements of Basel III.

This regulation was intended to place restrictions on the larger national and international banks that were instrumental in causing the recent financial meltdown that devastated our economy. It was not developed to destroy the valuable contribution of minority Banks to our core markets we serve. Minority banks do not participate in the risky transactions that warrant the greater capital requirements and restrictions of Basel III.

The following elements of the proposal warrant concerns that are detrimental to the stability and survival of minority banks.

Increased common equity requirements:

As I stated above, Minority Banks have historically, and continue to, struggle with raising capital. This capital limitation tends to keep our banks much smaller. According to Black Enterprise Magazine, there are only 15 black owned financial institutions in America with assets over \$100,000,000 and none over \$1,000,000,000. The State of Missouri alone has over 200 banks with assets over \$100,000,000. The lack of capital keeps minority banks smaller. The removal of current tier-1 components such as trust preferred and non-cumulative perpetual preferred would leave many of our banks under-capitalized using the proposed capital standards of Basel III. Without access to life giving capital, many of our banks would be forced to fail or lose our minority status if we are able to raise capital. As has happened in the past, the loss of our minority status would result in the abandonment of vital banking services to the minority communities we serve. The majority investor that was only interested in our charter would quickly abandon our community.

Risk Weighting:

Home ownership is a vital component of the American dream. For the most part, minority banks did not participate in the risky non-traditional mortgage lending that facilitated the mortgage meltdown. Furthermore, our communities suffer for the inequities in home values due to the low to moderate locations. In most instances, we are the only option for financing of these loans. Greater risk weighting of these mortgages may force us to second guess our decision to support these mortgages in order to maintain the minimum risk based capital requirements of Basel III. Such an action would leave these communities with little or no opportunity to participate in the American dream.

**Securities gains and losses:**

Since 2008, interest rates have been near historic lows. As a result the yield on our investment portfolio reflects the low current market environment. While we make every effort to maintain sound asset liability management practices, we are concerned about the effect on our capital when interest rates inevitably begin to increase. The temporary reduction in capital resulting from the unrealized reduction in securities value could have a material adverse effect on our Basel III capital compliance.

Noncumulative perpetual preferred:

Due to the lack of deep pockets in African American communities, Minority banks tend to have a relatively high percentage of preferred stock from large financial institutions and nonbank companies that provide a long-term, stable source of capital. These stockholders specifically invest in nonvoting preferred stock, rather than in voting common stock, so that they can make social investments in minority banks without becoming a bank holding company or disrupting the minority status of minority banks. Institutional investments in noncumulative perpetual preferred stock are therefore the ideal solution to allow minority banks to raise needed capital while maintaining their status as a minority bank. Failure to exempt minority bank from the Basel III rules would leave many of our minority banks with the option to fail or lose our minority status in order to meet the capital requirements.

Delinquent Loans:

Minority communities are plagued by higher unemployment and under-employment leaving limited disposable income to save for emergencies. These low to moderate income communities, however, must pay the same or higher prices for goods and services as the more affluent communities. Given the inconsistency of resources in our core communities, we have a higher percentage of slow paying customers. While the charge off history for residential mortgages in our communities continue to be less than our larger competitors, our past due percentages may be higher at times, given the challenges listed above. The proposed Basel III regulation would force us to be more aggressive in our actions against slow paying customers and less compassionate about assisting troubled borrowers in order to avoid a double hit to our capital (increased Basil III requirements and loan loss reserve). We should continue to manage problem loan risk through the loan loss reserve guidance and not be penalized with unreasonable risk weighting on these assets.



Preservation of Minority Banks:

Imposing the capital requirements of Basel III on minority banks would contradict an existing US Statute enacted by Congress to protect and preserve minority banks. Section 308 of FIRREA directed the FDIC to pursue the following five goals: (1) Preserve the present number of minority banks; (2) Preserve their minority character in cases involving merger or acquisition of a minority bank by using general preference guidelines; (3) Provide technical assistance to prevent insolvency of minority banks not now insolvent; (4) Promote and encourage creation of new minority banks; and (5) Provide for training, technical assistance, and educational programs. FIRREA signaled to the Agencies that the development of minority banks should be a priority. Imposing the limits and restrictions of Basel III on minority banks is in total contradiction to that mandate.

Penalizing minority banks because of the sins of our larger counter parts would unnecessarily penalize the communities we serve. Minority banks are often the lifeblood of their communities and play a vital role in the redevelopment of these under-served markets. Failure of minority banks will be devastating to the growth and development of our communities. Without access to vital banking services, many of our customers would never learn the discipline of money and will have no choice but to continue the generational curse of poverty on their children.

Thank you for allowing me the opportunity to comment on the proposed Basel III capital reform. I appreciate your willingness to consider a possible exemption of the Basel III requirements on community and minority banks.

Sincerely,

Sidney King
Regional President

“Everyone Banks at Liberty”