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RICK LARSEN
2nd District, Washington

Congress of the United States
House of Representatives
Washington, DC 20515–4702

Committees:
TRANSPORTATION
AND INFRASTRUCTURE

ARMED SERVICES

October 23, 2012

The Honorable Ben Bernanke
Chairman
The Federal Reserve System
20th Street and Constitution, NW
Washington, DC 20429

The Honorable Thomas Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance System
550 17th Street, NW
Washington, DC 20429

Dear Chairman Bernanke, Comptroller Curry and Acting Chairman Gruenberg:

I appreciate your efforts to revise and strengthen capital adequacy standards for banks and other financial institutions. These standards, if properly crafted, will make the banking system more resilient and help deter another global financial crisis. However, some community banks in my district are concerned that they will be treated in exactly the same fashion as large, complex international banks. Such treatment could carry unintended consequences. As such, I urge you to consider the unique characteristics of community banks as custom, local lending institutions when you address the proposed capital standards under Basel III.

Proposed capital standards under Basel III could disproportionately affect community banks in a number of ways. First, community banks have very limited options for raising new capital. While large banks can raise capital through capital markets, community banks must do so largely through retained earnings – a major challenge in this historically low interest rate environment. Second, risk weights on certain residential mortgages and commercial loans will impose punitive capital charges on all but standardized, "plain vanilla" loans. Because community banks specialize in customized loans with personalized underwriting, these new risk weights could put their unique business model at risk. Lastly, large, complex banks have in-house legal and compliance resources and larger assets bases over which to spread compliance costs. For community banks, on the other hand, this new compliance burden could have an undue impact.

I urge you to avert this outcome by recognizing the difference between community banks and larger financial institutions, and adopting the proposed capital standards accordingly. I have attached an editorial from the Everett Herald on this topic urging similar actions.

Thank you for your consideration. I look forward to working with you on this issue.

Sincerely,

Rick Larsen

Rick Larsen
US Congress
Washington, 2nd District

HeraldNet
Everett, Washington

A bank regulation too far

The law of unintended consequences fixes on policies crafted with the best intentions. Consider Wall Street reforms, legislative remedies to the risk-crazed profligacy of the 2000s, which have been an essential check on a capital culture gone berserk. The fixes borne of good intentions have mostly created positive outcomes, and that includes establishing a climate inimical to the bad old days.

A one-size reform strategy, however, can sting the little guy, imperiling the financial health of community institutions that didn't contribute to the meltdown in the first place. New regulation, first conceived in the third accord of the Basel Committee on Banking Supervision, throws the question into bold relief. Capital requirements from "Basel III" will extend to community banks -- not simply the targeted mega banks responsible for the 2008 train wreck. Community banks breathe life into small businesses, the frontline in reviving an anemic economy. And freighting community banks with even more capital requirements is a case study in what not to do.

Communities around the country, including in Snohomish County, will pay a steep price if the current Basel III regulatory framework moves forward. Troy McClelland, the President and CEO of the Economic Alliance of Snohomish County, observed that Basel III will have a stifling effect on the local economy by curtailing the capital available to small businesses, local developers, and even local governments. Community banks will be shoehorned into raising capital that they won't be able to lend to area businesses. The fallout will be sobering. An analysis by the Alliance indicates that Basel III will squeeze over 200 regional businesses and potentially kill 6,000 to 10,000 jobs, just in Snohomish County.

A bipartisan group of 53 U.S. Senators signed a letter to Fed chair Ben Bernanke, along with the acting chair of the Federal Deposit Insurance Corporation, and Tom Curry, the Comptroller of the Currency. The letter underscores the unintended-consequences' rule, that dinging the good guys does violence to a sound economy. "The proposed rules could make it even harder to raise needed capital," they write. "Community banks may change their business plans as a result of the rules, thereby reducing lending and economic growth in the communities in which they serve."

The comment period for Basel III ends on Oct. 22. Citizens should phone and email Sens. Patty Murray, Maria Cantwell and other member of the Washington Congressional delegation to encourage them to weigh in, sign the letter, and contact Bernanke directly.

No one suggests a laissez-faire approach to community banks. Regulation is demanded, and entities such as the Washington State Department of Financial Institutions (which is likewise opposed to the Basel III framework) do a superior job.

Only in dreams do we see accidents unfold in slow motion. Unless we act, Basel III is an accident that will morph into a colossal error, for Snohomish County and for the country.

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