Capitol Federal Savings

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JOHN B. DICUS, CHAIRMAN
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October 22, 2012
Capitol Federal's 120th Year
Of True Blue Service

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
Docket ID OCC-2012008

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Capitol Federal Savings Bank and Capitol Federal Financial, Inc., headquartered in Topeka, Kansas appreciate the opportunity to provide comments on the Basel III proposals[1] 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").

Capitol Federal Savings Bank is a $9.3 billion savings bank and Capitol Federal Financial, Inc. is a $9.4 billion savings and loan holding company (collectively "Capitol Federal"). Capitol Federal provides a full range of retail banking services through Capitol Federal Savings Bank. The Bank primarily serves eastern Kansas and a portion of the metropolitan area of greater Kansas City through 46 branch locations. The Bank is one of the largest residential

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

lenders in the state of Kansas. Over 95% of the Bank's loan portfolio is composed of one- to four-family loans, the majority of which are originated to be held to maturity. During the years leading up to, during and since the financial crisis, Capitol Federal did not compromise conservative underwriting standards resulting in industry leading asset quality metrics maintain strong capital levels. At September 30, 2012 our ratio of 30-89 day delinquent loans to total assets was 0.25% and our ratio of non-performing loans to total assets was 0.35%.

To provide more informed comments, Capitol Federal completed a high level analysis of the new risk-based capital requirements and has concluded that, as of March 31, 2012, the impact would be an increase in risk-weighted assets of approximately 18.8% and a 14.4% reduction in our total risk-based capital ratio. These negative impacts are primarily driven by the proposal's disallowance of consideration of private mortgage insurance in determining the loan-to-value ratio of the loans in our single-family mortgage loan portfolio. Additional negative impacts occur because of the risk-weighting assigned to unused lines of credits associated with our home-equity lines of credit and from classifying adjustable rate loans, made under previous regulatory guidelines, to now be classified as category 2 loans. These proposals have caused discussions within the Bank about; limitations on product offerings, implementing risk-based pricing, the ability to originate and sell loans while maintaining the servicing of those loans and has already caused some tightening of our underwriting standards.

Additionally, requiring the inclusion of unrealized gains and losses on securities classified as available-for-sale introduces volatility in capital ratios as market rates change. From the perspective of Capitol Federal, securities classified as available-for-sale are held to accommodate cash needs under stressed cash flow analysis. In reality, Capitol Federal has never sold a security out of its available-security-portfolio and sees this change as unnecessary while adding to the complexity of managing a very sound financial institution. As a result of this change, Capitol Federal could lose more than 0.5% of capital due to an increase of market interest rates of 200 basis points with no change in credit risk.

Capitol Federal believes that a better approach to ensuring sufficient capital exists in the banking system is to define capital as tangible equity and retained earnings and excluding items that can be volatile over time, such as the unrealized gains on available-for-sale securities. Recognizing mortgages as low credit-risk assets is an appropriate practice, and providing lower risk weightings for lower loan-to-value mortgages is consistent with the risk of that asset class. However, as a portfolio lender with single-family loans comprising approximately 95% of our loan portfolio, our experience shows that sound underwriting reduces risk of loss while at the same time providing flexibility to consider and apply compensating factors in individual cases to meet our communities lending needs. The flexibility to meet our communities needs could be impaired if capital requirements double, or more, on those loan.

Capitol Federal believes that it is highly likely that by establishing a second category of risk-weightings for single-family lending with risk-weightings in excess of 100% on performing loans, along with pending restrictive changes in consumer credit evaluation coming from other federal agencies, that credit will be curtailed to otherwise credit-eligible customers and regulations will stymie bank and economic growth because of the regulatory risks to financial institutions imposed by these proposals and pending proposals from other agencies.

I want to thank you for the opportunity to comment on the proposal.

Respectfully,

John B. Dicus
Chairman, President and CEO