MORTGAGE &
INVESTMENT CORP.

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

RE: FDIC Notice of Proposal Rulemaking
RIN 3064-AD95
RIN-3064-AD96

Dear Mr. Feldman:

I am writing about two specific issues with Basel III in calculating Common Equity Tier 1 Capital ("CET1"), Mortgage Servicing Assets and Goodwill.

In calculating "CET1", it is purposed that Mortgage Servicing Assets are deducted in excess of 10% of "CET1". In essence, they are treated similarly to Goodwill. Mortgage Servicing Assets are not all the same. Single family servicing assets have no call protection and suffer impairment when interest rates drop. Similarly, if single family servicing is made up of sub-prime loans versus conforming loans, you would have differing values based upon the types of loans serviced. Multifamily servicing assets, which we possess, have call protection and do not suffer impairment, when interest rates drop. The Asset is very stable. Our Multifamily servicing assets which are primarily FHA insured loans, have an income stream, so they act like a bond. An asset with a fixed rate of interest income stream cannot be valued at 10% of its total value. If that is the case, then what is a bond or a loan really worth? Multifamily mortgage servicing assets have value in excess of 10%. I can understand deducting Goodwill and Deferred Tax Assets because they are an Intangible Asset and they have no income stream. But if you have an asset with an income stream from a fixed rate of interest (i.e., mortgage servicing assets, bonds, loans, etc.) you cannot discount those assets to 10% of value. Our Multifamily servicing assets are much more liquid than any loan portfolio, which are nothing more than an asset with a fixed rate of interest income stream. How can you treat mortgage servicing assets differently than bonds or loans? Your approach to "CET1" that deducts mortgage servicing assets greater than 10% of "CET1" is completely misguided.

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In addition, to the mistreatment of mortgage service assets, the NPR "piles on" by requiring the amount of servicing assets not deducted to be Risk Weighted at 250%. Again, this is punitive and misguided. Multifamily servicing assets have call protection and do not suffer impairment. The amount of risk-weighting completely over-estimates the risk that is not inherent in that asset. In addition, your approach will reduce the value of all mortgage servicing assets. Therein, you will increase the cost of loans to consumers because lenders will have to make up for the value lost, through increased fees.

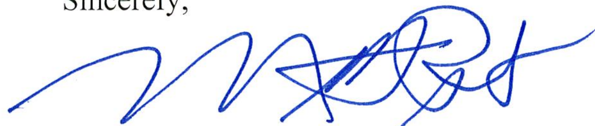
The other intangible assets you deduct from "CET1" is goodwill. I can understand this deduction from "CET1", but I believe it should be included in Tier 1 Capital or Total Capital. My reasoning is simple. If you completely exclude Goodwill from the Capital of a Bank, you reduce the market value of all banks. How can any bank buy another bank for 1.5 times book and have one third of its capital vanish. No bank can afford to do that transaction under Basel III. Therefore all banks decline in value or bankers will game the system by writing up the value of assets to cover the costs. In either case, we all lose. My solution for this situation is to increase the amount of Tier 1 or Total Capital. Instead of 8.5% and 10.50% in 2019 make it 9.5% and 11.50% in 2019.

In any event, I request that you reconsider your treatment of mortgage servicing assets, specifically multifamily servicing assets with call protection and your treatment of goodwill. Your proposed treatment weakens the banking system.

Basel III was designed to create a level playing field for international banks. To subject community banks to this capital regime is ill-founded and not needed. It is the third iteration of Basel I and Basel II. Neither of the previous capital regimes precluded the banking meltdown. Basel III will not stop a banking meltdown. When you have banks that are "too big to fail" they will take risks that I would dare not, because I know I will not be bailed out. But, if I am a member of the New York Fed, I can count on the government coming to my rescue. Therein, I would take out-sized risks because there is all reward and no risk of loss. The large banks that created the mortgage mess and the banking meltdown are much larger today than before the crash. They won, we all lost..

Community Banks and Banks under $50 billion in assets should not be held to this capital standard. It will decrease lending and the value of all banks under $50 billion in assets. Thank you for your consideration of my comments.

Sincerely,



Michael F. Petrie, CMB
President