Subject: FDIC “RIN 3064-AD95” (Basel III NPR) or “RIN 3064-AD96” (Standardized Approach NPR)

From: David Broyles [mailto:david.broyles@fswb.com]
Sent: Monday, October 15, 2012 10:37 AM
To: Regulatory Capital
Subject: FDIC “RIN 3064-AD95” (Basel III NPR) or “RIN 3064-AD96” (Standardized Approach NPR)

Comments to Basel III NPR:

1. The purpose of Basel is to increase the capital in banks. Why not simply increase the Leverage Ratio. Why have 4 capital ratios? What happens if a bank meets or exceeds two of the ratios and is below on two of the ratios? It only promotes administrative problems. The new ratios proposed are untested and they will have unknown consequences. FDIC is promoting an administrative quagmire.

2. A better proposal is to have one capital ratio. Set the Tier 1 Leverage Ratio at 8% to be a well capitalized bank. Then allow elasticity of the ratio. During good economic times, require 10% ratio to qualify for a well capitalized bank. During bad economic times allow the ratio to go down to 6%. Setting a one ratio base during all economic cycles will only promote administrative problems for both banks and FDIC.

3. The Capital Conservation Buffer is very subjective as to what the percentage buffer should be, and it serves no real purpose. Again, set the Tier 1 Leverage Ratio at 8% as noted in #2 above. If the Tier 1 Ratio standard is 8% and dividends are paid, or there are discretionary payments, after such payments the Ratio needs to be 8%. The conservation buffer concept is totally a “left field” concept that serves no useful purpose except to add administrative complexity that will have many unknown consequences.

4. It will be an administrative nightmare for banks and the FDIC in tracking loan to value and past due loans. Reporting and calculations will be a nightmare. This reporting will not produce more useful information that is not already available in Call Reports.

5. Deferred Tax Asset is a real asset. If a bank has audited financial statements in accordance to GAAP, then allow the bank to book the Deferred Tax Asset. This should not be a deduction from Capital Ratio if the CPA determines a bank is a going concern and the deferred tax asset is a realizable asset.

   This is one sided. If Deferred Tax Asset will be a deduction from Capital, then Deferred Tax Liability should be an addition to Capital for ratio calculation purposes. Why does the FDIC not follow GAAP rules on this subject?

6. Why is Allowance for Loan Losses limited to 1.25% of RWA? If the FDIC is promoting safety in banking, then allow the ALLL to go as high as management deems prudent. This limitation is contradictory to the objective of promoting soundness and safety.

7. Residential Loan to Value percentage that determines Risked Weighted asset is totally "wealth-biased." This means banks will seek wealthy borrowers that have the ability to put 40% down payment. Bank will not solicit or seek "low to moderate" income borrowers. This promotes a major contradiction among federal regulations. This means that Community Reinvestment Act should be eliminated, along with other laws promoting lending to low to moderate income borrowers. This proposal has unknown consequences to the overall economic growth of the nation. Allow banks to determine their own LTV. Government cannot say that a 60% LTV loan is "safe" and a 90% LTV loan is "unsafe." Income is a factor too. A doctor making $200,000 per year can afford to buy and finance 100% of the purchase price of a residence. A laborer may not have the income to make payments on 60% LTV loan. There are more factors to consider than just LTV in determining the safety of a loan.

There are embedded conflicts and unknown consequences to the Basel III proposal. Simply have the target be Tier 1 Leverage Ratio and leave it that basic. Thank you for the opportunity to provide input.

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