Congress of the United States

Washington, DC 20510

October 22, 2012

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street & Constitution Ave, NW
Washington, DC 20551

The Honorable Thomas J. 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 Corporation
550 17th Street, NW
Washington, DC 20551

Dear Chairman Bernanke, Comptroller Curry, and Acting Chairman Gruenberg:

As members of the Louisiana Congressional Delegation we are writing in reference to the joint proposed rules recently released by the Federal Reserve, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (FDIC), to implement the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision. We commend you on your decision to extend the comment period for these rules. We are concerned that the current proposal is overly complex and could disproportionately harm smaller banks and thrifts. We urge you to reject Basel's overly complex risk weighting capital system, and instead adopt a more simple true loss absorbing capital system. New capital rules should appropriately distinguish between the size, risk and complexity of the financial institution in order to develop a more level playing field.

Capital is the lifeblood of banks and thrifts. Conservative regulatory capital requirements are vital to a bank's overall strength and ability to absorb unexpected losses. Appropriate capital requirements also help protect local communities, the overall economy, and taxpayers from being negatively impacted. Andrew Haldane of the Bank of England recently wrote that a "simpler measure of accounting capital based on equity capital (core Tier 1) outperform broader, more complex measures."

Based on overwhelming feedback we have received from our constituents, we have specific concerns with the proposal's potential impact on community banks and thrifts and our local economies. As you know, the proposal includes new regulatory capital requirements that will be applicable to all banks and thrifts, regardless of their size or the risk they pose to the economy. This "one-size-fits-all" approach has caused grave concern amongst our community bank constituents and their customers. The initial focus of the Basel Committee was to develop uniform capital standards for the large internationally active institutions. The broad applicability of the current proposal to all banks and thrifts causes two major concerns. First, we worry that the complexity of the proposed rule will disproportionately affect the ability of our community-based institutions to comply and effectively serve their customers. Second, we are concerned that it will work to spur further consolidation in the banking industry as smaller community banks and thrifts struggle to comply.

One of the major concerns of our constituents is the new and more complicated risk-weight system. Risk-weighting under Basel III will shape the types of loans banks make and could allow banks to obscure their capital situations and create a false sense of confidence by assigning very low risk weights to instruments that actually have a good deal of risk, like sovereign debt. We are concerned that these risk weightings will influence capital decisions in ways that could lead to asset bubbles.

In a recent speech FDIC Director Thomas Hoenig said, "Applying an international capital standard to a community bank is illogical, particularly when models have not supplanted examinations in these banks," and that for a capital rule to be useful it must be simple, understandable and enforceable. Mr. Hoenig concluded his recent speech with the following advice:

"I understand where the proposal stands today and how much has been invested in drafting Basel III, but I believe the Committee should agree to delay implementation and revisit the proposal. Absent that, the United States should not implement Basel III, but reject the Basel approach to capital and go back to the basics. By doing so, we can focus on efforts that will create a well-managed, well-capitalized, well-regulated financial system that actually supports economic growth."

Mr. Hoenig's suggested approach makes sense. Please take the additional time that you have provided yourself with to adopt new capital rules that are simple, straight forward and distinguish between the systemic risk that megabanks, regional banks and community banks pose. Thank you for your consideration in this very important matter.

Sincerely,

David Vitter
United States Senate

Mary Landrieu
United States Senate

Rodney Alexander
United States Congressman

Steve Scalise
United States Congressman

Dr. John Fleming
United States Congressman

Cedric Richmond
United States Congressman

Dr. Charles Boustany
United States Congressman

Bill Cassidy
United States Congressman

Jeff Landry
United States Congressman