INDEPENDENT COMMUNITY BANKERS of AMERICA®

January 30, 2014

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219

Mr. Robert de V. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

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

Re: Liquidity Coverage Ratio: Liquidity Risk Management, Standards, and Monitoring, OCC Docket ID OCC-2013-0016, Federal Reserve Docket No. R-1466, FDIC RIN 3064-AE04

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the proposed regulatory capital requirement titled *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring*. The objective of this proposal is to establish a liquidity coverage ratio (LCR) metric for large and internationally active financial institutions in the United States that is consistent with the Basel Committee on Banking Supervision (Basel) liquidity coverage ratio standard for internationally active

[1] The Independent Community Bankers of America®, the nation's voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With nearly 5,000 members, representing more than 24,000 locations nationwide and employing more than 300,000 Americans, ICBA members hold more than $1.2 trillion in assets, $1 trillion in deposits, and $750 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

depository institutions and their holding companies. This proposal is put forth in response to the recent global financial crisis, where significant weakness in liquidity risk management was observed causing many large financial institutions to be unable to meet their funding obligations. This significant liquidity risk management crisis forced many central banks worldwide to provide extensive liquidity and other financial support to large financial institutions in an effort to provide stability to the global financial system.

The proposal requires that covered depository institutions and their holding companies maintain a portfolio of unencumbered, highly liquid assets sufficient to cover net cash outflows expected to occur over 21 days or 30 days depending on the size of the financial institution in a stressed economic environment. Eligible assets would be identified based on assumed liquidity with more credit sensitive assets assigned both a haircut and cap on their inclusion in the pool of highly liquid assets. Total cash flows would be determined based on significant liquidity stress events and how different types of funding channels would respond. **ICBA supports this proposal as a key component in the solution to solve the nation's too-big-to-fail (TBTF) bank problem and the associated risk to taxpayers when a large institution becomes severely stressed or insolvent.** The LCR in combination with other enacted and proposed large bank regulatory risk initiatives will help ensure that future losses at the largest financial institutions are fully absorbed by shareholders and not taxpayers.

However, ICBA has great concerns about the types of assets that are eligible for inclusion in the level 2A category of the pool of highly liquid assets and the impact of restrictions imposed on the ability of the largest financial institutions to hold claims on or guaranteed by a government sponsored enterprise (GSE). **Regulators should fully assess the impact to the future fair value risk to GSE securities if large banks will be required to liquidate their holdings of these securities to meet the requirements of the LCR. Additionally, regulators should assess the impact of liquidations on mortgage funding costs and the availability of credit for mortgages if the market for GSE securities is adversely impacted.**

ICBA has additional concerns about certain provisions establishing outflow rates on reciprocal brokered bank deposit products that are fully insured and have historically remained stable during times of market stress. Although community banks are not subject to the LCR based on proposed financial institution size, the penalties placed on these deposits raise larger questions about whether these deposits are currently or will in the future be scrutinized by the agencies. Any elevated level of scrutiny on otherwise fully insured deposits for liquidity purposes or otherwise may impact both the number and quality of deposit products that community banks offer their consumer, business, and municipal customers. **ICBA requests that the agencies conduct a thorough review of the deposit outflow rates assigned to different deposit product types in the LCR proposal and provide objective evidence to show why reciprocal brokered deposits are less stable in times of economic stress.**

1615 L Street NW, Suite 900, Washington, DC 20036-5623 ■ 800-422-8439 ■ FAX: 202-659-1413 ■ Email: info@icba.org ■ Website: www.icba.org

Background

The proposal is being set forth in response to the Basel standard for managing an LCR for large, internationally active financial institutions worldwide. The LCR is a regulatory response to the recent financial crisis, where international capital markets could not efficiently and effectively operate due to the onset of a global financial crisis. Central banks worldwide were forced to provide liquidity to financial institutions when an orderly and efficient market failed to exist. The LCR is designed to allow the largest banks the ability to survive a liquidity stress situation caused by financial and market stress by stocking a portfolio of unencumbered and highly liquid financial instruments that could be easily sold or pledged. These highly liquid financial instruments would be used to cover the net cash outflows that would accompany a severe stress event.

Financial institutions covered by the LCR in the United States would be banking organizations with $250 billion or more in total consolidated assets or consolidated total on-balance sheet foreign exposure of $10 billion or more. Additionally, a modified LCR would be applied to depository holding companies with total consolidated assets of $50 billion or more that are not internationally active. Financial institutions subject to the LCR would be required to maintain a ratio of high quality liquid assets divided by its projected stressed total net cash outflows over a predefined period equal to one hundred percent. Financial institutions subject to the LCR and the modified LCR would use 30 days and 21 days as the predefined period, respectively. The LCR would be adopted over a transition period starting on January 1, 2015, where applicable financial institutions would need to meet the LCR at a level of 80 percent. The required level would move to 90 percent in 2016 with full implementation required by January 1, 2017.

The numerator in the equation would involve a portfolio of highly liquid assets that are segregated in three distinct categories. Level 1 liquid assets are those that are considered of the highest quality and possess the most liquidity. These assets include excess reserves held at the Federal Reserve, withdrawable reserves held at a foreign central bank, and securities issued by or guaranteed by the full faith and credit of the U.S. government. Level 2A liquid assets would include claims on or guaranteed by a U.S. GSE or certain claims on or guaranteed by a sovereign entity or a multilateral development bank. Financial instruments eligible for the level 2A category would be subject to a 15 percent haircut. Level 2B liquid assets would generally include investment-grade, publicly-traded corporate debt securities or publicly-traded equities that are included in the Standard & Poor's 500 Index. These securities would be subject to a 50 percent haircut and would be limited to 15 percent of the total stock of highly liquid assets. Both levels 2A and 2B could not exceed 40 percent of the total stock of highly liquid assets.

The denominator of the equation would involve total net stressed cash outflows over either the applicable 21 or 30 day period depending on the size of the financial institution. Rates of net cash outflow are highly dependent on the type of funding being stressed.

Unsecured retail funding would vary from a 3 percent outflow rate for stable retail deposits to a 40 percent rate for uninsured retail brokered sweep deposits. Unsecured wholesale funding would vary from 25 percent for certain operational deposits to 100 percent for commercial paper or non-operational deposits from financial entities with securities that cannot be classified as highly liquid assets. Secured short-term funding backed by level 1 liquid assets would have a zero percent outflow rate while secured short-term funding backed by level 2A liquid assets would have a 15 percent outflow rate. Secured funding backed by level 2B liquid assets would be assigned a 50 percent outflow rate while all other secured funding not backed by a highly liquid asset would carry a 100 percent outflow rate.

Commitments would be stressed depending on the type of facility. Retail credit facilities would carry a 5 percent outflow rate while most corporate credit facilities would not range beyond 40 percent. Liquidity facilities to non-bank financial institutions would carry an outflow rate of 100 percent while outflow rates on credit or liquidity facilities to banks would be at 50 percent. Federal Reserve borrowings that are due to the Federal Reserve within 30 days are assumed not to be renewed and carry an outflow rate based on the liquidity characteristics of the collateral. The capacity to borrow from the Federal Reserve is not included in the stock of highly liquid assets.

Total stressed cash outflows can be offset by total stressed cash inflows up to 75 percent of total stressed cash outflows.

ICBA's Comments

ICBA supports this proposed regulatory initiative as a key component in the overall effort to protect U.S. taxpayers from future exposure to the country's largest banks and their complex interconnected relationships with other large financial institutions and associated international relationships. These TBTF institutions put the country at risk of having to provide unlimited liquidity to the global financial system because of their ineffective ability to manage risks and their low levels of regulatory capital. Having a stable stock of unencumbered, highly liquid assets to meet unprecedented cash flow stress events for the nation's largest banks not only provides a liquidity cushion for these banks in the event that the country experiences another unexpected economic downturn, but also facilitates the resolution of these institutions by the FDIC if they become insolvent or unable to continue as a going concern.

ICBA has concerns regarding the limitations on a covered financial institution's limited ability to include GSE securities in their portfolio of unencumbered highly liquid assets. Certain GSE securities, most notably securitizations issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, are a key component of a stable residential mortgage market. Since the recent financial crisis of 2008 and 2009, these GSEs have taken on almost all purchase and refinancing activities in the conforming mortgage market outside of residential mortgage loans sold to government agencies. Any disruption in the ability of financial institutions, especially very large financial institutions, to hold these financial instruments in portfolio could impact the overall conforming mortgage market in the United States by raising the interest rate paid by consumers for a mortgage. Although the U.S. residential housing market is improving, the availability of mortgage credit is still quite limited. Without a thorough review of the impact of the LCR on GSE securities held by large banks, unintended consequences may result that could depress the fragile housing market and, more importantly, slow the economic recovery.

Therefore, ICBA recommends that the agencies conduct a study on the impact of the implementation of the LCR on the current holdings of GSE securities at large banks as well as the potential impact to the overall mortgage market. If such study reveals the reasonable potential for depression of the fair values of these securities and consequently a disruption to the mortgage market, the agencies should mitigate the risks introduced by the LCR by expanding those banks' abilities to include GSE securities in the portfolio of highly liquid assets.

ICBA notes that the proposed LCR assigns inconsistent outflow rates to certain deposit products even though those products are both fully insured and historically have represented similar levels of stability. For example, the proposed LCR assigns a very high outflow rate of 40% to reciprocal brokered deposits that are fully insured originating with wholesale customers versus a 10% outflow rate to reciprocal brokered deposits that originate with retail customers. **ICBA requests that the agencies publish supporting documentation and reasoning for the higher outflow rate or adjust the outflow rate for fully insured reciprocal brokered deposits that originate with wholesale customers to the outflow rate of reciprocal brokered deposits that originate with retail customers.** Without a proper analysis of wholesale reciprocal brokered deposits that demonstrates an adverse impact on bank liquidity in times of economic and market stress, the agencies are indirectly penalizing these deposit products held at community banks across the country. This penalization may lead to unnecessary and harmful scrutiny of community banks' deposit mix during onsite bank examinations even though these banks are not subject to the LCR.

ICBA appreciates the opportunity to express its support for this proposal. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 659-8111 or james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
Vice President, Accounting & Capital Policy