Kansas Bankers Association

January 28, 2019

Office of the Comptroller of the Currency
Docket ID OCC-2018-0400

Federal Reserve Board
Docket No.

Federal Deposit Insurance Corporation
RIN 3064-AE91

**Re: Regulatory Capital Rule: Capital Simplification for Qualifying Community Bank Organizations**

Federal Regulatory Agencies:

Thank you for the opportunity to present comments on behalf of the membership of the Kansas Bankers Association (KBA). The KBA is a nonprofit trade organization whose membership includes 232 of the commercially chartered banks headquartered in Kansas. Our membership also includes 19 out-of-state commercial banks and 7 savings and loans operating in Kansas. We are pleased to support 99% of the industry in the state. Our member banks employ more than 13,000 Kansans that provide financial services in more than 400 towns and cities across Kansas.

As you are aware, this proposal would give qualifying community banking organizations an option to calculate a simple leverage ratio, rather than multiple measures of capital adequacy. In summary, a community banking organization with less than $10 billion in total assets, limited amounts of certain assets and off-balance sheet exposures and a leverage ratio greater than 9 percent, would be eligible to elect the simple capital calculation.

We believe this is a step in the right direction – towards allowing well-capitalized financial institutions to spend less time calculating and more time serving its community and customers, but we are concerned that this proposal still leaves many well-capitalized institutions under $10 billion having to use the same calculations as complex institutions.

The KBA would advocate for the leverage ratio being set at the 8 percent level as allowed by the Economic Growth, Regulatory Relief and Consumer Protection Act. It is our belief that the 9 percent capital level is well above the current requirement for well-capitalized banks of 5 percent, and as such, would not be a viable option for institutions under $10 billion. In other words, there is no incentive for these institutions to use this option since they are already doing the calculation under the current rules, and this "simplified" option would require them to increase their levels of capital.

As an example, one of the KBA member banks that would be eligible for this calculation found that the difference for him between 8 percent and 9 percent capital would mean that he would have to raise an additional $1,800,000 in capital. This would either decrease the amount of loans that could be made within that institution's community, or force that institution to try to raise additional capital from investors. Many community bankers will attest to the fact that it is difficult to raise capital in their communities. Unlike the



610 S.W. Corporate View 66615 | P.O. Box 4407, Topeka, KS 66604-0407 | 785-232-3444 | Fax 785-232-3484
kbaoffice@ksbankers.com | www.ksbankers.com

institutions that are publicly traded, return on investment is difficult to measure for community banks – exactly the institutions that this rule is designed to help.

In addition, there is evidence that during the crisis, the difference between banks that failed having 8 percent capital or 9 percent was insignificant. We believe that higher capital levels alone do not keep banks from failing, but rather, it is a combination of things. Much like a bank's rating by its banking regulator is not based on one factor, but six.

Another concern we hear from members is that no matter where the capital level is set, examiners in the field, many times, are critical that capital levels are not well above those levels - citing that a higher level just gives the examiner a better level of comfort as the reason for the criticism. The concern is that if the level is set at 9 percent...will that really mean examiners will be looking for 10? Once again, this makes this "option" meaningless as it will not be one that is chosen. Community banks want to participate in their communities by making loans to small business and consumers, and having even more capital tied up is counterintuitive to this.

In conclusion, the KBA believes that the goal of the legislation was to help ease the burden of complex capital calculations for community banks, and thereby, freeing their time and energy to do what they do best...serve the community. There is much doubt among the banking industry that this proposal will accomplish that goal.

Thank you for your time and attention to this matter of great importance.

Best regards,

[redacted]

Douglas E. Wareham
President & CEO

[redacted]

Kathleen A. Taylor
EVP-General Counsel