OC 19 - 122

Texas Bankers Association
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JUN 07 2019

OFFICE OF THE CHAIRMAN

May 31, 2019

The Honorable Jelena McWilliams
Chairwoman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Joseph Otting
Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, DC 20219

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Pending CBLR capital rule and current Expected Credit Loss Standards (CECL)

Dear Chairwoman McWilliams, Comptroller Otting and Chairman Powell:

The Texas Bankers Association recently completed its 135th annual convention where more than 900 bankers and other industry participants heard and shared ideas from marketplace insight to cybersecurity issues. It was a very positive meeting reflecting strong industry performance and an appreciation of an improved regulatory environment.

Two areas did emerge, however, and I write to you today to request your further consideration as to the composition of the pending CBLR rule and what could be the coincident imposition of FASB's new CECL standard.

Without reiterating the points made in our comment letter submitted with the interagency rulemaking, it is our analysis that the proposed rule to implement the capital simplification section in last year's regulatory relief legislation (Public Law 115-174) would represent an increase in leverage requirements for many institutions as well as added complexity over-imposed with the existing capital rules.

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Even for the majority of our institutions meeting the 9% ratio, I heard from a number of our bankers that the various uncertainties of the new format, particularly in the event that a subsequent merger or other external circumstances occasioned a failure to comply going forward made the status quo a better option at both the bank and the holding company level.

On the CECL issue, perhaps the best way to view it is as a reprise of the Basel III capital debate where the proposed changes were developed in the context of large international institutions but were imposed across-the-board to community banks regardless of institutional size or risk profile. The application of CECL will most likely cause a significant spike in loan loss reserves and the constriction of consumer credit during times of economic stress. Your agencies may want to consider conducting a Stop and Study approach as is proposed in S. 1564.

In addition to the forgoing views on these initiatives, we are also concerned that the coincident timing by way of effective dates would serve to compound the adverse effect on lending in individual communities as well as the broader economy.

The CBLR remains a high priority goal with it being approximately one year since its date of enactment. The changes which were recommended broadly by way of public input can hopefully be incorporated through the lowering of the minimum leverage requirement to 8%, reducing the number of precomputation capital deductions, eliminating the need for separate holding company calculations and coordination with the threshold requirements established under the Prompt Corrective Action framework.

Texas bankers appreciate the time and effort which has already been dedicated to these complex issues and we appreciate the opportunity to provide these supplemental comments.

Sincerely,

[redacted]

Chris Furlow
President & CEO