INDEPENDENT COMMUNITY BANKERS of AMERICA®

July 26, 2021

Mr. James P. Sheesley
Assistant Executive Secretary
Attention: Comments/Legal ESS RIN 3064-AF72
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Real Estate Lending Standards

Dear Mr. Sheesley:

The Independent Community Bankers of America ("ICBA")[1] appreciates the opportunity to provide comments on the Federal Deposit Insurance Corporation's (FDIC) notice of proposed rulemaking titled *Real Estate Lending Standards* (the "NPR"). ICBA commends the proposal as an effective alternative for reporting loans in excess of supervisory loan-to-value (LTV) limits. It will also provide some consistency in reporting for community banks that have elected to maintain regulatory capital using the community bank leverage ratio (CBLR) as well as those community banks that have not elected or cannot elect the CBLR. Over time, this proposed approach will reduce the regulatory complexity surrounding the reporting of supervisory LTV limits for institutions that switch between the CBLR capital framework and the full regulatory capital framework without jeopardizing the assessment of the safety and soundness of the institution by regulators.

Institutions that hold loans with LTVs exceeding supervisory LTV limits are required to identify such loans and report their aggregate balances at least quarterly to the board of directors. When the total balance of loans in certain categories that exceed supervisory LTV limits approaches a

[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than $4.9 trillion in assets, $3.9 trillion in deposits, and $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

predetermined percentage of total capital, those loans are subject to increased scrutiny by regulators. The NPR proposes to modify existing real estate lending standards for calculating the ratio of loans in excess of supervisory LTV limits for all insured depository institutions by amending the denominator of the ratio to include tier 1 capital plus the allowance for credit losses or the allowance for loan and lease losses for those institutions that have not yet adopted the current expected credit loss model. This alternative is an improvement to existing regulatory reporting where the denominator is currently sourced using total regulatory capital, a calculation that is not performed by institutions that have elected to calculate regulatory capital using the CBLR. With the proposed change supervisory LTV limit ratios will have consistent application across all banking organizations regardless of the regulatory capital framework elected.

ICBA commends the FDIC for proposing this alternative to the calculation of supervisory LTV ratios as a sensible way to help provide uniform application of the measurement of the safety and soundness of all community banks on a consistent basis. Because tier 1 capital and the allowance for credit losses provide a bank's loss absorbing capacity in times of elevated credit losses, ICBA believes that using these components of capital in the calculation of supervisory LTV ratio thresholds will not weaken the metric's significance in helping to determine the safety and soundness of a banking organization. The consistency provided through using the same measures of capital in the denominator of the ratio for all institutions will allow peer financial institutions to be assessed more effectively regardless of their decision to elect the CBLR for regulatory capital reporting.

For capital calculations generally, ICBA believes that the FDIC should explore the inclusion of the majority or even all of the allowance for credit losses in tier 1 capital to further improve the quality of the tier 1 capital measurement. By including at least some component of the allowance for credit losses in tier 1 capital, community banks would be allowed to reflect the true ability of their institutions to absorb future credit losses since this allowance is the first line of defense when such losses become imminent.

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

SAUK CENTRE, MN
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

866-843-4222
www.icba.org

ICBA appreciates the opportunity to comment on this proposed rule and request for comment. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 821-4364 or james.kendrick@icba.org.

Sincerely,

[redacted]

James Kendrick
First Vice President, Accounting and Capital Policy

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

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P.O. Box 267
Sauk Centre, MN 56378

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