American Bankers Association

Building Success. Together.

June 15, 2018

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

The Honorable Joseph Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

The Honorable Randal K. Quarles
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
Eccles Board Building
20th and C Street, N.W.
Washington, D.C. 20219

Re: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996

Dear Chairman McWilliams, Comptroller Otting, and Vice Chairman Quarles:

The American Bankers Association and the undersigned state bankers associations welcome the banking agencies' efforts to simplify the generally applicable risk-based capital standards to address unnecessary complexity and provisions that needlessly inhibit economic growth or constrain banks in fulfilling their core functions. We view the Agencies' proposal entitled "Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996" (Simplification Proposal), proposed on September 27, 2017, as an important step to achieving a simpler and improved regulatory capital framework. Over the last two decades, the regulatory capital framework has grown more complex than it needs to be for the financial stability or supervisory value it provides. The comment period on the Simplification Proposal closed on December 26, 2017. Promptly finalizing the regulatory deduction component of the Simplification Proposal would provide immediate benefits to banks and their customers.

The Simplification Proposal focused on two specific areas: 1) regulatory deductions and 2) High Volatility Commercial Real Estate (HVCRE). While the regulatory deduction component was straightforward and widely supported, the HVCRE component was more controversial and complex.

The HVCRE provision has since been made largely moot by the enactment of HVCRE provisions in S.2155, signed into law by President Trump on May 24, 2018. That Act includes specific language that clarifies the regulatory capital treatment of acquisition, development, and construction loans characterized as HVCRE. Given this statutory clarification, the banking agencies can set that issue aside and immediately finalize the regulatory deduction portion of the Simplification Proposal.

The regulatory deduction provisions are among the more complex aspects of the Basel III final rule. Generally, the provisions include an individual deduction threshold set at 10% of common equity tier 1 (CET1) as well as an "aggregate deduction threshold" for various groups of assets set at 15% CET1. The combination of individual and aggregate deduction thresholds is unnecessarily complex and unwieldy, particularly for community banks. For example, the final rule includes a sixteen box flow chart for the treatment of investments in the capital of unconsolidated financial institutions. Such complexity offers little value for bank supervisors or bank management. The banking industry supports the Simplification Proposal's elimination of the 15% deduction limit. Furthermore we support raising of the individual deduction thresholds for mortgage services assets, investments in the capital instruments of unconsolidated financial institutions, and deferred tax assets resulting from timing difference from 10% to at least 25%.

While we believe it is also important for the Agencies to reconsider the risk weight treatment of the portion of exposures that are not deducted from capital, we do not believe this reconsideration should slow the finalization of this rule.

We encourage the Agencies to proceed expeditiously to finalize the Simplification Proposal (without the HVCRE elements). Thank you for your consideration.

If you have any questions about these comments or would like to discuss anything further, please contact Hugh Carney at hcarney@aba.com or 202-663-5324.

Sincerely,

American Bankers Association
Alabama Bankers Association
Alaska Bankers Association
Arizona Bankers Association
Arkansas Bankers Association

California Bankers Association
Colorado Bankers Association
Connecticut Bankers Association
Delaware Bankers Association
Florida Bankers Association

Georgia Bankers Association
Hawaii Bankers Association
Idaho Bankers Association
Illinois Bankers Association
Illinois League of Financial Institutions
Indiana Bankers Association
Iowa Bankers Association
Kansas Bankers Association
Kentucky Bankers Association
Louisiana Bankers Association
Maine Bankers Association
Maryland Bankers Association
Massachusetts Bankers Association
Michigan Bankers Association
Minnesota Bankers Association
Mississippi Bankers Association
Missouri Bankers Association
Montana Bankers Association
Nebraska Bankers Association
Nevada Bankers Association
New Hampshire Bankers Association
New Jersey Bankers Association
New Mexico Bankers Association
New York Bankers Association
North Carolina Bankers Association
North Dakota Bankers Association
Ohio Bankers League
Oklahoma Bankers Association
Oregon Bankers Association
Pennsylvania Bankers Association
Puerto Rico Bankers Association
Rhode Island Bankers Association
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