Proposal:	1638 (AF29) Reg Q - Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking
Description:	

Comment ID:	133732
From:	Mills County State Bank, Robert Hemsath
Proposal:	1638 (AF29) Reg Q - Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking
Subject:	R-1638; Reg Q - Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Org

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Secretary Misback,

Please consider my comments on your proposal to establish a "community bank leverage ratio" (CBLR) to implement Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA"). I applaud both Congress for passage of this important bill, and for your efforts in attempting to implement Section 201 to provide very important regulatory burden relief for community banks.

Mills County State Bank is located in a small rural town in central Texas named Goldthwaite. My bank has approximately $312 Million in assets, Tier 1 leverage of 9.21% and Tier 1 risk based capital ratio of 17.27%. We have served the financial needs of the residents, small ranchers, and small businesses of five small rural Texas communities for 130 years, through both good and tough times.

The current risk based capital calculations are complex at best, and do not appear to be designed for the non-complex community bank model such as mine. Regardless of the outcome of a final rule, I urge you to revisit the calculation of risk based capital for non-complex community banks that are serving small rural communities.

We are very familiar with the calculation of Tier 1 Leverage Ratios, and are required to provide this information on our quarterly call report submissions, you are proposing yet another leverage capital calculation. We would appreciate not having another capital ratio to calculate, especially as we may determine that we will ultimately need to shift between the CBLR and the current risk based capital calculation.

We are especially concerned with the creation of a new Prompt Corrective Action (PCA) Framework, and believe that the current matrix should suffice. Community banks are especially sensitive to the restrictions on funding options, inability to branch or make acquisitions and other problematic issues that are realized with a "less than well capitalized" position. The proposed CBLR combined with the unintended consequence of CECL could place my bank that has been well capitalized for decades into this unenviable position of being classified as less than well capitalized. We strongly urge you to reconsider this unnecessary provision.

While determining an appropriate level of capital is challenging at best, it would appear that an 8% leverage ratio, especially with the impending and unwelcome addition of CECL forthcoming, is appropriate for well-rated and well-run community banks. My bank in particular is sensitive to this issue as we are very near the 9% cutoff to qualify for the CBLR and the impact of CECL could easily place us in a position to not qualify under the proposed CBLR framework. An 8% framework would make it possible for my bank to adopt the CBLR and benefit from the regulatory simplification without running the risk of becoming less than well capitalized in the near term. Regulators should and always will have the ability to demand additional capital when necessary through their enforcement powers.

We very much appreciate the efforts of the regulators to address this "simplification" of community bank capital requirements and calculations, it still remains significantly complex and potentially difficult to implement. Our bank will look forward to the final rule prior to making any decisions to hopefully take advantage of this very welcome regulatory burden relief.

Sincerely,

Robert Hemsath
1012 Hutchings St
Goldthwaite, TX 76844
robbh@mcsbtexas .com