From: Arcola First Bank

Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

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Basel III

Basel III is a problem because banks have too much competition and too little profits. The end result is many large banks are forced to cheat to make money as recently witnessed by several large banks' actions. If banks were more profitable, no taxpayer bailout would be needed. It's the best and cheapest thing the Fed could do for the taxpayer. Let's solve the real problem instead of refilling a leaking gasoline tank. Time for the Fed to take the lead and stand up for sound banking practices rather than blaming Congress.

If you went to a basketball game and the referees walked off the court when the game started, the game will surely end in chaos. This is what has happened to our economy since 1992. The Federal Reserve has allowed the over expansion of the banking system and especially the over expansion of all non-bank businesses conducting banking business without adequate capital or regulation, then selling or dumping their flawed products back into the banking system and ultimately back to the taxpayer. In the 70's about 14,000 bank charters existed, but most were unit banks with no branches. Today it's around 7,300 charters. The problem is that with internet banking, ATMs, and thousands of full service branches, the country has the equivalent of 200,000 banking locations for the fifty states. That is too many. This doesn't include non-bank competition such as Countrywide Mortgage and other gems, some of which are still operating . Only 35,000 supermarkets exist in the U.S., with people eating three times a day. You don't bank three times a day.

Hyper competition made it difficult for any bank to turn down a bad loan, urged on by CRA minded bank examiners. During the "good times," banks ended up making bad loans at too low an interest rate. Even bad loans pay for a while in good times. Could these problems have been avoided? In 1990, the US population was about 250 million with residential mortgage debt at $3.8 trillion. In 2000, population grew 12% to 280 million while residential mortgages grew 79% to 6.8 trillion. Where were the referees? By 2007, mortgages had grown to 14.6 trillion with population 301 million; population grew 7.5% and mortgages grew 114%. Why wasn't the Fed monitoring these numbers? One could assume that until mortgages drop back to 9 trillion or that inflation equivalent, the country cannot return to prosperity because the excess mortgages propped up the economy when borrowed, and will drive the economy down, even with reduced interest rates, during the payback period. Even savers cannot help in the recovery because of artificially low rates being paid to them. Maybe qualified foreigners could help by purchasing homes for cash in return for citizenship. Worse than this, the Fed approved the purchase by Bank of America of Countrywide Mortgage for $2.5 billion, only to have B. of A. write off another $37 billion later, with more to come. (Bigger is better.) The whole scheme is that large institutions are given preference in the Fed system at the cost of smaller members. If they fail, the Fed bails them out. To assist other large entities, the Fed has granted banking powers to Walmart and State Farm as a way to further blur and confuse the line between banking and commerce.

How can this problem be fixed? First, put a freeze on all bank expansion, let the industry consolidate and profits rise. Remove all non-bank entities from the banking business (Walmart , State Farm, and others). Second, force money market funds and non-bank mortgage outfits into the banking system. Third, all credit cards and mortgages must be originated by a bank located within ten miles of the borrower or the nearest two banks. Fourth, all mortgages must have income verification, 20% down payment, 15 year amortization, and 5 year maturity, allowing banks to portfolio them and to abolish the GSEs.

On the other hand, if banks can't make a good profit and have to raise more capital under Basel III, then the gasoline is going to slowly leak out of the tank, again. Instead of Basel III, why don't we get our arms around the $300 trillion in derivatives which is highly likely to be the next big problem?

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