From: Southern Commercial Bank, Melany Kniffen
Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules
Subject: Regs H & Y Regulatory Capital Proposals

Comments:

As a community banker I object to the imposition of the Basel III accord.

International agreements have not proven to be in the best interest of the United States or the businesses affected by them. European businesses and countries are not held to the same standards Americans are held to under the agreements. Several European countries were admitted to the EURO single currency scheme without adhering to the rules, European countries and banks have repeatedly skirted European bailout rules, why should we expect Basel III to be any different?

If American businesses determine it is in their best interest to agree to conform to internationally agreed rules, they should do so. But it should not be the U.S. government that requires American businesses to conform to such rules.

U.S. regulators may determine certain capital requirements are desirable and institute them. Let the U.S. regulators be answerable to U.S. citizens and legislators and not hide behind the 'international agreement' boogeyman.

To the extent Basel III capital standards are imposed upon U.S. banks, they should apply only to the too big to fail, complex institutions and not the community banks. Such capital standards will be the end of community banking. Our shareholders anticipate regular dividends to pay personal expenses. Our shareholders are not pension funds that can make it up over the long haul. I've had a shareholder tell me she uses her dividends to pay her property taxes. In the case of Sub S corporations, shareholders need dividends to pay income taxes. To put dividends at such risk when the institution itself is not risky is bad regulation.

Community banks cannot hedge the capital risk the way a too big to fail bank

can. We don't have departments of traders or lawyers. We are relationship bankers. As an example, many community banks keep mortgage servicing rights when they sell the loan. The customer knows the loan will stay with the originating bank and the bank maintains its relationship with the customer. Under Basel III, where such servicing rights negatively impact reserves and capital, you are punishing community banks for good customer service. Banks that don't keep the servicing rights and subject their customers to mortgage loans that are continually at risk of moving to a new servicer, suffer no consequences. One regulator took umbrage when a banker stated that the capital rules of Basel III are punitive. There is no other way for a community banker to view Basel III. It is a scheme that punishes and destroys without a corresponding good to support it.

When regulators were quizzed on why portfolio mortgages, typically 3 to 5 year balloon notes, were singled out for additional capital reserves, the response was that there was no data that such loans are riskier for banks but that the regulators thought such loans should be discouraged as not in the best interest of consumers. It was admitted that there is no data to support the notion that such loans are riskier for the customers of community banks. Applying increased risk weightings is inappropriate here. Applying Basel III reserve requirements to the kinds of loans and investments made by community banks many communities losing their banks, either through consolidation or failure. You are over-plucking the goose. It will die.

Melany Kniffen
Chairman