NJBankers
NEW JERSEY BANKERS ASSOCIATION
With New Jersey Banks, New Jersey Prospers

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October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551

Re: Basel III Proposals; Docket No. 2012-0008

Dear Board of Governors of the Federal Reserve System:

I am writing as President and CEO of the New Jersey Bankers Association. NJBankers represents 120 banks in New Jersey from the smallest to the largest. I am very concerned about the effect of the Basel III proposals on banks, their customers and their communities in New Jersey.

Respectfully, we believe that Basel III is not written with an understanding of American community banks; the European and Canadian banking model is significantly different than ours. The basic concept of uniform adequate capital levels is a good one. The details and impacts on various groups, however, need to be fully and carefully evaluated. Given the differences in size and complexity of financial institutions, it only makes sense to tailor capital requirements to reflect size, complexity of the institution and its business model, interconnectedness, characteristics of the markets served, impact on credit in those markets, and other factors. Lenders facing an uncertain future will take a cautious approach and restrict lending until the rules are clear. Banks will resist growth and expansion (thus hurting their customers) until there is certainty. As proposed Basel III will have a negative effect on businesses and employment.

Specifically, we believe that the Basel III proposal will have a negative impact on our community banks.

First, the proposal will impact their ability to extend credit to individuals and businesses as banks' capital requirements increase. Higher capital requirements and risk-weighting by asset type will push certain loans out of banks. Furthermore, uncertain risk-weighting could discourage residential lending and affordable housing lending. If affordable housing lending from banks diminish it increases the challenge that nonbanks fill the void. As a result, the demand for these credit needs will be met by "shadow banking", the lightly regulated nonbanks, thus repeating one of the causes of the 2008 financial crisis. Risk-weighting of delinquent loans Incents the bank to address them aggressively, further impacting borrowers. This will also affect the way loan modifications are treated. Since customer delinquency diminishes internal loan grades thus further increasing capital requirements, banks are incented to be more aggressive at loan payoff and workout strategies, often compounding already difficult finances for the customer.

The pressure of added capital requirements will cause some banks to merge with or sell to competing banks, accelerating the consolidation of the banking industry and creating fewer competitors. As capital is increased, return to the investor (ROI) decreases. For a community bank to attract outside investors it must provide the return the investor expects or that money is infused into other businesses or industries. Today's circumstances make it very difficult to attract new capital with current requirements, much less at higher ones. Banks will attempt to increase ROI (to attract investors) and may be tempted to take on more risk by making loans they otherwise would not make.

The United States banking industry has historically high capital levels and New Jersey banks, in particular, have had a very low failure rate in the current economic downturn. Adequate capital is essential, though excess capital requirements can contract economic activity and hurt the local community. This "One size fits all" capital proposal dictates too much capital for some and perhaps too little for others. What started out as an effort to standardize and increase capital standards for a small group of complex financial institutions with international operations has morphed into a new set of capital proposals that will affect every financial institution in the country. Regulators need to take a step back and rethink these proposals in light of the massive industry feedback and concerns that have been expressed. Now is not the time to put what's at best a modest economic recovery at risk.

Finally, this proposal affects trust preferred stock. The Dodd/Frank Act requires entities greater than $15B to replace trust preferred holdings in 5 years, and provided that those under $15B cannot increase trust preferred holdings but can keep what they held when DFA passed. This proposal is contrary to that law and requires write-off or replacement of Trust Preferred over 10 years. This disqualifies good capital, conflicts with U.S. law, puts earnings pressure on such banks (hurting their ability to attract investors), effectively raises the capital requirements for these banks, and hurts lending.

We respectfully request that your agencies table adoption of the proposed rules and engage the banking industry and Congress in a dialogue to craft revised capital proposals for United States banks. Working together we achieve the goal of a stronger banking system while spurring economic growth in America's communities.

Respectfully Submitted,

John E. McWeeney Jr.
CEO and President

cc: Honorable Frank R. Lautenberg;
Honorable Robert Menendez;
Honorable Robert E. Andrews;
Honorable Frank A. LoBiondo;
Honorable Jon Runyan;
Honorable Chris Smith;
Honorable Scott Garrett;
Honorable Frank Pallone, Jr.;
Honorable Leonard Lance;
Honorable Bill Pascrell;
Honorable Steve Rothman;
Honorable Rodney P. Frelinghuysen;
Honorable Rush Holt;
Honorable Albio Sires