From: Jared S. Pink

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

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued for public comment. Community banks should be allowed to continue using the current Basel I framework for computing capital requirements. Basel III was designed specifically for the largest, most internationally active banks, not community banks. In fact no other country in the world has a community banking sector like the United States of America, which provides for a disproportionate negative impact on community banks that is unwarranted. Community banks did not engage in the highly leveraged activities that dramatically depleted capital levels of the largest banks and created panic in the financial markets. Community banks operate on a relationship-based business model that is specifically designed to meet the needs of customer in their respective communities on a long-term basis. This model has contributed to the success of community banks all over the country through common sense approaches to managing risk. The largest banks operate purely on a transactions basis without regard for the customer relationship. This bright line difference in business models demonstrates the need for tougher capital standards exclusively for the largest banks to better manage the ability to absorb losses.

Large financial institutions have the ability to mitigate the risks of capital volatility by entering into qualifying hedge accounting relationships for financial accounting purposes with the use of interest rate derivatives like interest rate swap, option, and futures contracts. Community banks do not have the knowledge or expertise to engage in these transactions and manage their associated risks, costs, and barriers to entry. Community banks should continue to exclude AOCI from capital measures as they are currently required to do today.

Implementation of the capital conservation buffers for community banks will be difficult to achieve under the proposal and therefore should not be implemented. Many community banks will need to build additional capital balances to meet the minimum capital requirements with the buffers in place. Community banks do not have ready access to capital that the larger banks have through the capital markets. The only way for community banks to increase capital is through the accumulation of retained earnings over time. Due to the current ultra-low interest rate environment, community bank profitability has diminished further hampering their ability to grow capital. If the regulators are unwilling to exempt community banks from the capital conservation buffers, additional time should be allotted (at least five years beyond 2019) in order for those banks that need the additional capital to retain and accumulate earnings accordingly.

Thank you for the opportunity to comment on this proposal. To be clear, without much needed changes to the proposal as it relates to community banks, will have a dramatic negative impact on the community banking sector in the United States

Jared S. Pink