From: Banking at Its Absolute Best, Rod Whitson

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

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

Under the proposed Basel III capital rules, institutions are required to deduct all mortgage servicing assets (net of deferred tax liabilities) that exceed 10% of common equity tier 1.

Bank2 is a 100% tribally-owned bank in Oklahoma City and one of the top lenders in the Section 184 Indian Housing Loan Guarantee Program. Bank2's mission is to help people build better lives and one of the primary ways we do that is by helping Native American families achieve the dream of home ownership. We have helped thousand of Native Americans purchased homes, and we also retain the servicing of those loans both to better serve our customers and to maintain a strong source of income for the bank.

Based on the capital treatment of servicing rights under Basel III, Bank2 would most likely exit the mortgage servicing business impacting long standing customer relationships and reducing fee income.

We are only a $100 million bank, and we currently have a servicing asset of almost $5 million. Our tier 1 common equity is just over $13 million; tier 1 risk based assets are $71 million. If we were operating under Basel III capital standards today, Bank2's tier 1 common equity would be reduced by $3.7 million. Therefore our Bank2's tier 1 capital will be reduced by 28% under Basel III. Bank2 tier 1 capital ratio would fall from its level of 18.3% to 12.4% - this includes 100% of the excluded servicing asset added back in to risk basked assets. If the add back were at the eventual 250%, Bank2's capital ratio would be at reduced to 11.6%. In sum using today's numbers, implementation of Basel III would reduce tier 1 capital ratio from its current 18.3% to 11.6%. And this does not include the effects of other aspects of Basel III.

We ask that you consider the following:

Require no deduction from capital for mortgage servicing rights.
Regulatory agencies should allow banks like Bank2 to include 100% of the fair market value of readily marketable mortgage servicing assets to reduce the impact of the proposal.

At minimum, the following rules should be enacted:

Existing mortgage servicing assets should be grandfathered. It is simply unfair to penalize banks like Bank2 with long standing mortgage servicing assets because of change in position of the Basel committee.
A greater percentage of servicing rights should be included in capital (i.e., 50 - 75%). This would more than offset any potential impairment to the servicing rights assets and would therefore more than offset potential impairment to a small bank's capital.

If the changes above are not made we would most likely exit the mortgage business. The net effect our exit would be to take one of the largest HUD 184 lenders out of the market and that, in turn, would mean thousands of Native American families would never achieve the dream of homeownership. It's highly unlikely that any other lender would make the same loans in the same circumstances that Bank2 does - examples included loans on tribal trust lands, manufactured housing, loans to tribal housing authorities, rehab loans and so many others.

We respectfully ask that you consider Basel III's impact on small banks like Bank2 before enact the servicing rights provisions.

Rod Whitson