

*National Bankers Association
1513 P Street, NW
Washington, DC 20005*

Ms. Jennifer J. Johnson, Secretary
Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Proposed Risk-Based Capital Standards: Trust Preferred Securities and the
Definition of Capital, Docket No. R-1193

Dear Ms. Johnson:

Thank you for the opportunity to comment on the Board of Governors' proposed amendments to the risk-based capital standards and the related Tier 1 leverage ratio guidelines for bank holding companies (Appendices A and D to Regulation Y).

Founded in 1927, the National Bankers Association represents the interests of minority and women-owned financial institutions. Our member banks are located in 29 states and 2 territories, serving mainly distressed communities plagued by severe social and economic problems. Our members are deeply committed to providing employment opportunities, entrepreneurial capital and economic revitalization in neighborhoods that often have little or no access to alternative financial services.

One of the common challenges facing minority and women-owned financial institutions has been the ability to attract capital to support the growth and operations of the institutions and, at the same time, maintain the minority character of the ownership of the institutions. Given that most minority-owned banks are established in depressed markets, the task of raising capital has often been arduous. The issuance of non-voting common and perpetual preferred stock to nonminority individuals or entities has been of assistance to minority banks that wish to raise capital while maintaining the minority-owned essence of the bank. Fannie Mae has established a program to invest in the capital of minority institutions, often in the form of nonvoting common or perpetual preferred stock. Large bank holding companies and other corporations have also invested in the nonvoting common or perpetual preferred stock of minority institutions. Many of our members may need such forms of capital in the future to enable them to continue to serve effectively the banking needs of their communities.

Given the existing and prospective capital needs of our members, the National Bankers Association is very concerned with the Board of Governors' proposal to grant itself the discretion to treat nonvoting common and perpetual preferred stock as other than Tier 1 capital.

Under current Federal Reserve Board guidelines, it is unequivocally clear that common stock and perpetual preferred stock, whether voting or nonvoting, is Tier 1 capital. The definitions of what constitutes Tier 1 capital are not dependent on the discretion of the Federal Reserve Board and its staff. When our members issue nonvoting stock to Fannie Mae and other nonminority investors, they know that it will be counted as Tier 1 capital.

The proposed amendments take all of the certitude away from the definitions. Each time that a minority bank wants to issue nonvoting common or perpetual stock, it will assume the risk that the Federal Reserve Board staff might not count such stock as Tier 1 capital. Our banks cannot operate under such a cloud of uncertainty. Alternatively, our banks might just decide not to issue any nonvoting common or perpetual preferred stock in the future, but, then, they would be eliminating a fertile source of capital for which there may not be any substitute. Those minority banks that have already issued nonvoting stock are faced with the prospect of having that capital being treated as other than Tier 1 capital.

We also are concerned that the Board of Governors' proposal will substantially limit the flexibility of our members in seeking other alternative sources and forms of capital. Treating differently for capital adequacy purposes a class of common stock that has lower dividends or voting power than another class of common stock, or where the minority bank reserves the right to redeem such class, limits the choices that minority banks have in creating and maintaining a strong capital base. If there were compelling bank supervisory needs to limit the use of such forms of common stock or perpetual preferred stock, we might have a different position. But the proposal does not spell out what bank supervisory needs are served by distinguishing different classes of common stock or perpetual preferred stock based on voting, dividend, and redemption powers. None of these characteristics affect the basic nature of these instruments as Tier 1 capital, since they are all permanent forms of capital. Of course, once stock is redeemed, whether through contract or terms of the capital instrument or through a repurchase program of the bank, that stock is no longer issued and outstanding. But the Federal Reserve Board already has in place a procedure for bank holding companies to follow in providing notice to the Federal Reserve and becoming subject to review of certain stock redemptions and repurchases. See 12 CFR 225.4(b).

The National Bankers Association urges the Board of Governors to withdraw these proposals. The current rules and regulations of the Board of Governors, combined with its examination and applications authority, are adequate to prevent any perceived abuse or capital shortfall.

Sincerely,

Norma Alexander Hart
President