



Terry E. Branstad  
GOVERNOR

**OFFICE OF THE GOVERNOR**

Kim Reynolds  
LT. GOVERNOR

October 19, 2012

Jennifer J. Johnson  
Board of Governors of the Federal  
Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, D.C. 20551

Office of the Comptroller of the Currency  
250 E Street  
Mail Stop 2-3  
Washington, D.C. 20219

The Honorable Martin J. Gruenberg  
Acting Chairman  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, D.C. 20429

Dear Ladies and Gentlemen:

We support common-sense efforts to improve and enhance standards for banking organizations in the United States in light of the recent financial crisis. A strong, viable capital base is vital to ensure Iowa financial institutions are able to absorb unexpected losses. However, we urge you to consider the adverse impact of applying standards intended for multi-billion dollar global financial institutions to community banks across Iowa and the nation – as these rules are not designed for the community banking model and the vital role they play in communities across the country, including the State of Iowa. Quite simply, small community banks were not the problem during the financial crisis, yet they are treated with a one-size-fits-all approach in the proposed rules.

Community banks are a critical source of business lending in Iowa. In many parts of our State, the local banks are the only source providing local capital and services as they have a direct stake in the success of their communities. These institutions have a completely different business model—funding loans in the community with local deposits—than the multi-national institutions that were the focus of the Basel Committee.

We are concerned that the proposed Basel capital rules, as currently drafted, could exacerbate funding challenges for local Iowa banks due to limited access to capital markets. There are approximately 300 State-chartered banks in Iowa which will be impacted. These local banks must rely on their officers, directors or shareholders to raise additional capital, which is challenging even in the best of times, and automatically drives local accountability. By requiring reporting and maintenance of granular loans by loan data, Iowa banks will face enormous time and cost compliance burdens. Many Iowa banks will have difficulty servicing their local communities because they simply do not have the resources or capacity to meet the new



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compliance obligations. In addition, the new increased capital and accounting requirements for investment securities will adversely affect how Iowa banks of all sizes currently manage liquidity and interest rate risk.

Capital is a critical source of strength in our financial system. However, application of these global rules does little to strengthen Iowa banks and instead will likely weaken their ability to foster capital to those small business owners and investors who need it most to help grow the economy. As you review the proposed rules, we respectfully request you consider these unintended consequences and their effect on the safety and soundness of smaller financial institutions.

Sincerely,

A handwritten signature in black ink that reads "Terry E. Branstad".

Terry E. Branstad  
Governor of Iowa

A handwritten signature in black ink that reads "James M. Schipper".

James M. Schipper  
Iowa Superintendent of Banking

cc: Iowa Congressional Delegation