Central Mortgage Company

October 19, 2012

Re: Federal Reserve Board
"Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets: Market Discipline and Disclosure Requirements"

Docket No. R-1442
RIN No. 7100-AD87

Ladies and Gentlemen:

It is with grave concern that I respectively offer my following comments regarding the Basel III Proposed Regulatory Capital Rules. My company is a wholly owned service corporation of Central Bancompany, Inc. (CBC), a bank holding company located in Jefferson City, Missouri. CBC owns thirteen (13) banks primarily in the state of Missouri with one located in Tulsa, Oklahoma. Our banks operate under a community banking model. The above referenced Capital Rules will have devastating effects on our banks' ability to serve both our customers and our communities. While I agree that sufficient capital is paramount for the protection of our customers and our economy, I can't agree with the "one size fits all" approach of these proposed rules. As I am in the twilight of my career I can assure you that my comments are not self-serving but only a genuine concern for our customers to continue receiving personal service from people they know and trust.

These proposed rules will most certainly restrict competition and serve to concentrate greater amounts of risks in the larger and more complex banks risking more future taxpayer bailouts.

I will not attempt to address all my issues with the proposed rules as I know our trade association, the Missouri Bankers Association, has done an excellent job of that. Instead I will limit my comments to those that trouble me the most and deal more directly with residential lending as that is my area of expertise.

Having said that I am compelled to cover some traditional banking rules that are proposed since what limits our capital also limits our ability to help our customers purchase homes.

I. Unrealized Gains and Losses to have an impact on equity/capital:

This is likely the most damaging and counterproductive of all of the proposed rules. Book entries that reduce bank equity in rising rate environments will deprive banks of necessary capital to fund local businesses and consumers leading to a reduction in economic activity and jobs. Why would only one half of any investment be disassociated from its funding source such as deposits for valuation purposes? The confusing aspect is why regulators would expose the banking industry to undue earnings and capital volatility that is currently counterproductive to the Federal Reserve's accommodation mission of holding long term rates down for next few years. In response, banks will shorten durations to reduce earnings volatility with less lending during the least opportune economic environments or those times of higher rates. By definition higher rates choke off economic activity. This will only exacerbate that consequence with bank capital being drained by book entry write-downs without any offsetting consideration for the opportunity value of bank liabilities of similar durations.

II. The Standard Approach rule will restrict credit availability and raise the cost of credit:

While I characterized my first point as the most damaging, this proposed rule is the most confusing and serves as a reminder of an old adage, I cringe every time I hear, and that is "no good deed should go unpunished". I cannot speak for every community bank but only those I know their management and practices. I don't know of any that perpetuated the kind of careless lending of low, no document loans or predatory practices that led to the financial crisis. From most news accounts that type of lending was done by large lenders that mass produced mortgage loans at high volumes and low costs. However, community banks continued to lend as they always had by following traditional underwriting parameters of assessing a borrower's capacity, collateral and credit.

An additional confusion is the attempt to reduce prudent lending to a single common denominator or the loan-to-value (LTV) component. By all accounts, the root cause of bad mortgage lending that led to the financial crisis was a "layering of risk" factor. Yet this rule will encumber bank capital at a greatly increased rate by one single and often times misrepresentative factor-LTV. In addition, this comes in the face of soon to be released Qualified Mortgage (QM) regulation which creates lender liability associated with a requirement to ascertain a borrower's ability-to-repay and not simply LTV. This serves to illustrate my biggest fear and that is there doesn't seem to be any care taken to crafting regulation that is globally homogeneous with current or soon to be released regulations. Plus, I am not sure why private mortgage insurance is not considered an offsetting factor in capital requirements. While all private mortgage insurance companies have not fully lived up to their full obligations most all legitimate claims have been paid to a minimum of 50% and most at higher rates. Private mortgage insurance must be given consideration or thousands of otherwise worthy homeowners will be locked out of homeownership as either bank lending abilities are smothered by overly restrictive capital requirements when valid credit enhancements are available or banks simply won't lend to higher LTV borrowers to preserve thinner capital margins. The lack of down payment has been the number one barrier to homeownership for decades and this will only serve to exacerbate that issue at a time when many areas of the country are dealing with a bloated housing stock.

III. Basel III unfairly eliminates Trust preferred equity for banks between $500 million and $15 billion

Many community banks and bank holding companies have issued trust preferred securities as a means to raise or supplement capital. These are approved instruments and are intended to be grandfathered by the Collins Amendment. The attempted elimination of this type of equity coupled with the increased capital requirements of Basel III creates a grossly uneven environment for community banks to compete with large, money center banks that have ready access to debt and equity markets. Again, this will only serve to concentrate more risk of failure in the larger banks and deprive customers of a choice between personalized and local financial services versus the more impersonal, "one size fits all" customer service for the large banks.

IV. Basel III limitation of CE Tier 1 capital regarding mortgage servicing rights that exceed 10% of the CE Tier 1 and the increase in risk weighting from 100% to eventually 250% risk weight beginning in 2018.

Again, I am confused by the propensity for experts to delineate the causes of the recent financial crisis to support the need for enhanced regulations only to propose regulations which serve to perpetuate the very causes the regulations are intended to correct. It is not my intent to impugn the larger banks and/or servicers, as we all have our challenges, but it is well known that those servicing massive volumes of loans did so while enjoying enormous economies of scale. In most cases, their profit margins were much larger than in comparison to smaller servicers who did not enjoy the economies of scale of large numbers of loans per servicing employee. When the housing crisis occurred the unprecedented number of delinquencies and foreclosures led to the issues I feel many currently proposed regulations are now intended to correct. Unfortunately, Basel Ill's increased risk weighting in this area will only contribute to the further consolidation of servicing rights with those entities that can raise the capital necessary to support the Basel III requirements. This aggregation advantages the large, money center institutions at the expense of the community banks as well reduces consumer choice. Many borrowers use our banks for the convenience of local service. They can make payments at our banks as well as get answers from a local employee they can visit. Customers also enjoy having all their financial services with one institution that is local. A mortgage is a cornerstone in many people's personal finances. As such it is often the case that where a person has their mortgage is where they get their other financial services. This leaves community banks unfairly disadvantaged as they don't have the equivalent access to capital as their larger counterparts.

Summary:

Basel III standards appear to advantage the large, money center banks, both domestic and aboard, at the expense of community banks. Further, it will limit consumer choice while creating an even greater risk of those institutions that are "too big to fail." It will limit community growth, kill jobs and reduce the competition for financial services. I would hope that these proposals would be withdrawn or rewritten with sensitivity to leveling the playing field for all financial services providers as well as maintaining a customer's right to choice.

I greatly appreciate the opportunity of presenting my concerns and thank you for your consideration.

Sincerely,

Rick Hollenberg
President
Central Mortgage Company