From: Bank Iowa, Bob Vavra

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

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

Jennifer J. Johnson Office of the
Board of Governors of the Federal
Reserve System
20th St. and Constitution Ave, N.W.
Washington, D.C. 20551

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. I represent the interests of Bank Iowa, a $1.1 billion bank headquartered in West Des Moines, Iowa. I am writing this letter today to express concerns about both the Basel III proposal as well as the "Standardized Approach" proposal.

I understand the overall goal in the Basel III proposals of strengthening capital requirements so banks can weather the storms of downturns economic cycles inevitably bring, but these rules in their entirety are more appropriate for large complex financial institutions competing in a global marketplace than for the business practices of our local bank. We respectively ask that both the Basel III and the Standardized Approach proposals be repealed for the following specific reasons:

1. Requirement that gains and losses on available for sale securities (AFS) must flow through to regulatory capital.

The timing of this proposed rule greatly compounds the problem, since we are now at a period of historically low interest rates. As interest rates begin to rise, capital under this proposal will move rapidly in a negative direction, as while nothing will have changed regarding the bank's tangible equity, regulatory capital ratios could be reduced rapidly. A 300 basis point rise in interest rates for example would reduce the value of many bank's securities portfolios and reduce CET1 significantly - some Iowa banks report by as much as 40-50%. This proposal therefore will introduce a significant amount of volatility into the system which is the opposite of what the goal should be. This will also cause our bank to reduce our balance sheet as the economy improves, simply because of the upward movement in interest rates. Our small business, consumer and mortgage customers will be adversely impacted by the reduced availability of credit under this proposal - as it will reduce our central focus of making loans to members of our communities.

2. Elimination of trust preferred securities (TPS). Many financial institutions hold these instruments as a very cost effective source of capital, as most community banks have much more limited access to capital markets than larger regional or national financial organizations. This rule also is a complete re-write of the Collins Amendment to the Dodd-Frank Act (DFA), which would have grandfathered TPS for institutions between $500 million and $15 billion. The DFA never intended for this type of instrument to be completely phased-out for

community banks - and will reduce our ability to grow our balance sheet to better serve our customers if we have to concentrate on filling capital holes caused by changes in regulation, instead of focusing on funding of growth opportunities in our communities. This proposal seems to lie in direct contradiction to not only the statute, but also our national goal to spur job growth. We would ask this section to be made consistent with the requirements under the DFA.

3. Increased risk weighting for residential loans. These proposed residential mortgage rules raise several issues. First, mortgages must be re-assessed after a loan structuring or modification (HAMP loans are exempt). Secondly, similar to the agencies proposal for a "Qualified Residential Mortgage" (QRM) the proposed rules do not recognize private mortgage insurance (PMI) at all to reduce loan to value requirements - so mortgages may be subject to higher risk weights even if PMI reduces the risk on these loans. Third, the proposal has no grandfather provision, so all residential mortgage loans on the bank's books would be subject to the new capital requirements - forcing banks to review all existing files to determine the appropriate category and LTV for each loan file. As our bank's strong underwriting has led to a very small loss history on residential real estate loans, this new re-evaluation approach on an asset by asset basis is completely unnecessary and should be eliminated from the proposal. All three of the above are an unnecessary burden on our bank.

4. Change in risk weighting for home equity and second lien loans. This proposal will cause our bank to seriously consider discontinuing our home equity loan programs. We also ask this portion of the proposal be eliminated.

5. Proposal to increase risk weights on delinquent loans. Like many Iowa banks, we are fortunate with careful underwriting to have a very low delinquency rate currently - but this could change quickly based on economic conditions. This rule, which drastically increases the risk weights for past due loans, causes concerns as our bank already sets aside reserves for delinquent loans. By proposing to also increase capital we hold on past due loans, we are basically being required to set aside capital twice. Risk regarding past due loans should continue to be managed through loan loss reserve guidance and not by layering on an additional capital requirement.

In conclusion, our bank has no way to completely ascertain the full impact of this massive proposal because of the amount of work it will take to understand the rules and how they apply to our balance sheet. We will likely be required to hire a team of consultants to implement the re-assessment of each individual loan in our portfolio with the new risk weights, re-program our core processing software to handle the new coding requirements and then create the necessary reports to analyze the data.

As I stated above, while I support the overall goal of strengthening the financial system by increasing the level and quality of capital that banks hold, these rules are designed much more for large multi-billion dollar global financial institutions that the business practices of Iowa banks. We urge the agency to repeal this proposal so we may continue serving our communities and help strengthen our local economies.

Thank you.

Robert D. Vavra

President
Bank Iowa