CORY GARDNER
4TH DISTRICT, COLORADO

ENERGY AND COMMERCE COMMITTEE
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ENVIRONMENT AND ECONOMY SUBCOMMITTEE
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Congress of the United States
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October 31, 2012

Ben S. Bernanke
Chairman
Federal Reserve Board of Governors
20th and C Street, NW
Washington, DC 20551

Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Chairman Bernanke, Acting Chairman Gruenberg, and the Comptroller Curry,

Last month, I, along with several members of the Colorado congressional delegation, wrote to express an overall concern of the proposed capital-related provisions of the Dodd-Frank Act, or Basel III, and the chilling potential effects on Colorado financial institutions. In particular, the letter expressed concern regarding our smaller community banks. I still have several concerns regarding Basel III that I wish to elaborate upon.

The overarching goal of Basel III is to address shortcomings in regulatory capital requirements that came to light during the country's recent financial crisis. In the wake of the crisis, many in the industry would agree that larger financial institutions should be better capitalized and have greater access to liquidity. However, the proposed Basel III capital standards will be nearly impossible to implement without severe unintended damage to the community banking system, other types of small businesses here in the United States, investors, and bank customers.

In short, Basel III fails to address the needs of community banks. Increasing community banks' capital and liquidity standards will undoubtedly make community banks safer, but it will also cease the creation and allocation of credit for productive uses. A community bank so strongly capitalized that it cannot effectively meet consumer loans needs is not the ideal bank. Reducing credit will have the cumulative effect of less competition and, ultimately, force consolidation or sale of community banks. A less competitive banking industry stalls innovation and destroys small businesses, which are vital to our local communities. When a local bank is forced to downsize or sell, the surrounding community feels the impact and economic activity ceases.

Not only will small businesses suffer, but the nation's housing market will continue to see little improvement. One of the greatest challenges facing the housing recovery is the availability of credit. As policymakers, we need to continue the positive momentum in the housing market by focusing on ways to bring private capital back. Under Basel III, loans for housing will be difficult to obtain including residential mortgages, home construction, and land development. Smaller community banks may very well exit the residential real estate lending altogether. This is not the answer for sustainable growth in the housing market.

Finally, Basel III will have a negative effect on bank investors and consumers. Because return on investment decreases as capital increases, investors will have little incentive to invest in the community banking system and many banks will be unable to survive given their difficult task to raise capital. Bank customers will also be harmed as community banks will be pressured to be more aggressive in collecting past-due loans. Community banks pride themselves on long standing customer relations and their ability to work with the borrower to make loans current and eventually be repaid in full. Basel III discourages this practice, and will pressure banks to quickly call notes, seize collateral, or foreclose rather than work with customers.

Thank you for your attention to this important matter. It is my hope that you will take into consideration these concerns and I look forward to your prompt response.

Sincerely,

Cory Gardner
Member of Congress