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October 16, 2012

Ms. Linda Robertson
Assistant to the Board for Congressional Liaison
Board of Governors of the Federal Reserve System
Twentieth and Constitution Avenue, N.W.
Washington, DC 20551

Dear Ms. Robertson:

Please find enclosed correspondence from my constituent, Mr. Robert L. Milam, about a matter that falls under the jurisdiction of your agency.

I would appreciate your reviewing the correspondence and providing me with information that may serve as the basis for my reply.

With warm regards, I am

........ly,

Nick Rahall

NICK J. RAHALL, II
Member of Congress

NJR/js
Enclosure

InterTrac® for Government

Correspondence Tracking Sheet

Tracking # 100010-DC

Constituent

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Glen Daniel, WV 25209
Boone

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Details

Category: Government
Status: Open
Received Via: Web
Date Received: 10/01/2012

Web Mail Message

Web Mail Subject: IMA MAIL on TRD

Basel III
Re: *Basel III Capital Proposals*

Mr. Rahall:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. As a community banker I am deeply concerned by the proposals contained in Basel III. As with the majority of changes arising from the financial crisis, Basel III is a reactionary response to a self-inflicted catastrophe. The driving force behind the bank failures of recent years is lack of enforcement and allowing complex financial instruments to permeate the banking sector. Capital standards are and were sufficient. The reason capital came under pressure was due to the inclusion of hybrid forms of capital, such as trust preferred securities and other instruments that should have never been allowed in the first place. The banking sectors problems are not the result of weak capital standards but the result of basically allowing
banks to lie about how much capital they actually had.
Capital is a safeguard. It should be sacrosanct and maintained with full integrity. Instead the regulatory regimes allow banks to blow up their balance sheets with FHLB advances and hybrid capital that should never have been allowed on bank balance sheets to the extent that it was. Couple this hocus pocus with ever larger concentrations of CRE and exotic residential mortgages, and you have a recipe for disaster. The problem was not that our capital structure needs an overhaul; itâ€™s that we simply need to enforce our capital requirements as they were intended.
The new risk weighting structure is going to wreak havoc on community banks and their customers. We are the institutions that figure out how to help people that arenâ€™t necessarily a square peg in a square hole! Your new mortgage risk weighting treatment will make it a nightmare for banks that fill the void between rural America and the GSEâ€™s that you allow prostituting the mortgage market. Combine these risk weights with new qualified mortgage guidelines and you will shut out the most vulnerable of our society from owning a home. Many banks are toying with eliminating residential lending from their products altogether.

You must reconsider the effects of AOCI incorporation as a part of the capital structure. If not, we will all look like heroes on the way down and idiots on the way up. Especially in a nightmare scenario like the one we just lived through. Combine the ignorance of mark to market accounting standards with AOCI inclusion and you will skew balance sheets like nothing you have ever seen. If your goal is stability and long term structural integrity, why on earth would you make such a volatile item so key to your

calculation? I am sad to say, but there have been recent years that were horrible, but when you included AOCI at year end reporting, I look like a genius. Itâ€™s misleading and will lead to either undue confidence or undue fear.
Rather than just attack this latest salvo aimed at community banks, I would like to refocus your efforts on the true cause of the financial crisis, poor oversight! All of the hand wringing and populist rhetoric is simply an attempt to appease voters displaced by the financial crisis. What we need are strong leaders that will enforce the laws on the books. Our regulations are sufficient! The problem is with law enforcements application of those regulations. West Virginia is a prime example of this fact. We have a strong regulatory regime that at times has driven me crazy and given me premature gray hair. As a result of their zealous enforcement WV banks are among the nations strongest. Not because we had a different rule book, but because the regulators fairly and earnestly enforced the rules on the books. They didnâ€™t let a bank with15% of their capital in trust preferred securities loan 400% of their capital to CRE borrowers or any other type of borrower for that
matter. I still say, if you have people speeding on the interstate, you donâ€™t lower the speed limit to 30 miles per hour. You write tickets and issue fines!
Please reconsider the adoption of Basel III; it will cripple community banks and more importantly, the borrowers and communities that depend on them. Thank you.

Sincerely,

Robert Lee Milam Jr.
President
Whitesville State Bank

History

Notes/Comments:

Route History:
10/16/2012 - 09:48 AM - Josh Sutherland - Printed Tracksheet
10/16/2012 9:48:16 AM - Josh Sutherland - Edited Response
10/16/2012 09:48:13 AM - Josh Sutherland - Printed
10/16/2012 09:47:19 AM - Josh Sutherland - Response Created (Print)
10/16/2012 09:47:09 AM - Josh Sutherland - Status Change: Open
10/12/2012 12:37:53 PM - Andrew Mollohan - Approved
10/09/2012 12:14:11 PM - Josh Sutherland - Status Change: In Review
10/09/2012 12:14:09 PM - Josh Sutherland - Submitted for Review
10/9/2012 12:14:08 PM - Josh Sutherland - Edited Response
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