Congress of the United States
Washington, DC 20515

November 28, 2012

The Honorable Ben Bernanke, Chairman
Federal Reserve Board of Governors
20th Street and Constitution Avenue N.W.
Washington, DC 20551

The Honorable Thomas J Curry, Comptroller
Office of the Comptroller of the Currency
250 E Street S.W., Mail Stop 2-3
Washington, DC 20219

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

Dear Chairman Bernanke, Comptroller Curry and Acting Chairman Gruenberg:

As members of the Nebraska Congressional delegation, we are writing to express our concerns regarding the proposed Basel III Capital Standards and their impact on our state's community banks.

First and foremost, we would like to offer our thanks for delaying the implementation date for the Basel III proposals beyond the proposed deadline of January 1, 2013. Based on the number of comment letters submitted to the Federal Reserve, we believe that the time period between the closing date for comments and the proposed implementation date was much too short. We appreciate the deliberative review of all comments by the Federal Reserve Board, Comptroller of the Currency, and Federal Deposit Insurance Corporation, and applaud the decision not to unnecessarily rush to meet the proposed deadline. We believe great care must be taken to get these proposals right, no matter the time it takes.

While acknowledging that sound capital standards are an important component of a healthy financial system, we must be mindful of the effects that imposition of international capital standards will have on community banks that play an integral part in financing economic development and growth. Community banks were not the stated target of Basel III, and subjecting them to its most stringent requirements does nothing to further the goal of protecting the global economy from the shock associated with a failing systemically significant institution. If Basel III requirements are fully applied to America's smallest banks, the resulting level of complexity will drive many out of business.

Since the proposal was issued, Nebraska bankers have expressed their concerns regarding the complexity of the proposed regulations and their impact on existing lending practices. They believe that the proposed rules disproportionately harm smaller banks and will adversely impact their ability to meet the credit needs of the individual customers and small businesses that they serve. We agree that an increase in overall capital requirements originally designed for larger, more complex financial institutions engaging in international activities will reduce the lending capacity of smaller institutions in communities across Nebraska.

One prime example of the negative impact the proposed regulations will have on smaller banks involves the adverse treatment of the balloon mortgage, a common element of community bank lending. With the increased regulatory burden and compliance costs being placed on mortgage lending activities by other regulations, the increased capital requirements for residential lending activities have led many smaller community banks to indicate that they will abandon the mortgage lending market as a result of a combination of these factors. Our economic recovery benefits from the involvement of community banks in the establishment of a strong housing market. The absence of mortgage lending by smaller banks will significantly restrict our country's ability to make progress in the housing sector.

The complexity of the proposed regulations will place a disproportionate burden on smaller community banks. The new and more complicated risk-weight system will be a significant detriment for small banks, regardless of their existing capital levels. In many instances, small banks, over time, will be required to seek additional sources of capital as a result of the proposed regulations. Since the onset of the financial crisis, the options for raising additional capital have been greatly diminished for smaller banks, compared to their larger financial counterparts.

Restrictions relating to capital gains and losses treatment, phasing out the Trust Preferred Securities Capital treatment (not contemplated in the Dodd-Frank Act), the excessive risk weighting's disproportional affect, and restrictions placed on dividends and discretionary bonuses all will have a negative impact on community banks. Further, we urge your agencies to take into consideration the aggregate effects on community banks not only of the Basel III proposals, but also of the hundreds of ever-evolving regulations which have come out of the Dodd-Frank Wall Street Reform Act.

Nebraska banks have endured the financial crisis and a vibrant, competitive banking environment exists in our state. This benefits the economy at-large, as well as the residents and businesses in their respective communities. Any proposed regulation should be fairly balanced to ensure that community banks are not disproportionately affected or placed at a competitive disadvantage. We do not believe that the proposed Basel III Capital Standards meet this test.

As you continue to work on capital standards to strengthen our banking system, we would strongly encourage you to avoid unnecessary complexity and give further consideration to the impact that the proposed rules will have on traditional banks that provide credit to individual consumers and small businesses that is so vitally important to the communities in our state. To this end, we recommend that you consider exempting the smallest banks and bank holding companies from proposals that are found to negatively impact community bank lending.

We appreciate your consideration of our comments, and look forward to working with you as this process advances.

Sincerely,

Senator Mike Johanns

Congressman Lee Terry

Congressman Jeff Fortenberry

Congressman Adrian Smith