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United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

February 13, 2013

The Honorable Ben Bernanke
Chairman
Board of Governors
The Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20429

The Honorable Thomas Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

The Honorable Marty Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Chairman Bernanke, Comptroller Curry, and Chairman Gruenberg:

We are writing regarding the recent proposals by the Board of Governors of the Federal Reserve System (Federal Reserve), Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) to strengthen capital standards and implement the Basel III framework. A strong capital base is a key component of a resilient financial system that can withstand financial shocks. Regulatory capital rules are most effective when they are clear, well-calibrated, and work effectively in concert with other prudential requirements to ensure that there are no unintended consequences. In setting the new capital rules for the United States institutions, your agencies face a formidable task to carefully tailor the new rules to the unique risks of institutions while neither hampering lending nor undermining the strength of our financial system.

While we appreciate your agencies' efforts to explain the proposed rules to community banks, including issuance of a capital estimation tool to evaluate the impact of the proposed rules, there are several issues that may adversely impact smaller depository institutions, such as community banks and banks that serve rural regions. For example, we are concerned that the proposed treatment of accumulated other comprehensive income, or AOCI, may increase volatility and make interest rate risk more difficult for small banks to manage. In addition, we are also concerned that the proposed risk weights could have an adverse impact on small banks' ability to offer and service mortgages, especially in rural areas.

We are also concerned about the treatment of the business of insurance in the proposed rules. While we understand that there may be challenges, as a bank regulator, in supervising bank holding companies that are primarily insurance companies, and insurance companies that offer bank products through subsidiary savings and loan companies, Congress has explicitly stated that when "issuing regulations relating to capital requirements of bank holding companies and savings and loan holding companies under this section, the Federal Reserve should take into account the regulatory accounting practices and procedures applicable to,

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and capital structure of, holding companies that are insurance companies (including mutuals and fraternal), or have subsidiaries that are insurance companies.”¹ Further, Basel III was intended to be a banking, not insurance, framework; the Basel Committee itself has acknowledged that “comparisons of individual elements of the [insurance and banking] capital frameworks are potentially inappropriate and misleading.”² We ask that you adhere to such congressional intent in your final rules.

On November 14, 2012, the U.S. Senate Committee on Banking, Housing and Urban Affairs held a hearing titled, “Oversight of Basel III: Impact of Proposed Capital Rules,” with officials from your agencies to analyze the Basel III proposals. At that hearing, Members of the Committee on both sides of the aisle raised concerns that the Basel III proposal could negatively impact smaller depository institutions, as well as insurance companies, the housing market recovery and the overall economy.

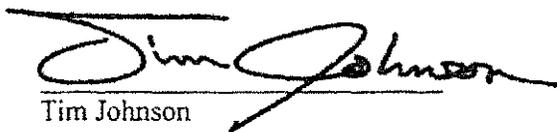
As one official told the Committee at the November 14th hearing: “We have... over 1,500 comments that we have received. We are going to review each one of those, each and every one, and we will take those into consideration when we work on a final proposal and move forward.” Another official observed: “[T]he commenters are very concerned about the impact on these banks and the local communities. We take those concerns very seriously...”

We are following up to make sure those concerns are not only being taken seriously, but are being proactively addressed. While it is important to get the new capital standards in place, it is more important to get the rules right.

As the Federal Reserve, OCC, and FDIC work together to finalize the Basel III capital proposals, we ask that you please respond to us in writing, before you finalize the rules, about how your agencies will address the concerns outlined above, as well as those raised during the Senate Banking Committee hearing by our colleagues.

Thank you for your consideration and we look forward to your prompt response.

Sincerely,


Tim Johnson
Chairman


Mike Crapo
Ranking Member

¹ Senate Report 111-176, available at [http://thomas.loc.gov/cgi-bin/cpquery/R?cp111:FLD010:@1\(sr176\)](http://thomas.loc.gov/cgi-bin/cpquery/R?cp111:FLD010:@1(sr176)).

² Basel Committee on Banking Supervision, *Risk Management Practices and Regulatory Capital: Cross-Sectoral Comparison* (November 2011), available at <http://www.bis.org/publ/joint04.pdf>.