Congress of the United States

Washington, DC 20515

December 20, 2013

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

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

The Honorable Thomas J. Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

Dear Chairman Bernanke, Chairman Gruenberg and Comptroller Curry:

We are writing with respect to the recently finalized Volcker Rule requirements, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Volcker Rule's purpose is to limit the proprietary trading by banks in order to maintain financial stability and protect the economy. We appreciate the efforts that were made in developing this rule and believe it takes important steps to curb speculative and risky investment activities that played a role in the recent financial crisis.

Community banks, however, were not the entities that participated in the activities the Volcker Rule intends to eliminate. Further, it was our understanding community banks would not have been impacted during your deliberations. That was largely adhered to in the final Volcker Rule, as community banks were largely exempt from its regulations. Unfortunately, community banks across the country are now facing grave uncertainty and an immediate financial impact due to the treatment of collateralized debt obligations backed by trust-preferred securities (TruPS CDOs) they own.

Under the recently-released Volcker Rule, community banks will be forced to liquidate their TruPS CDOs and take a sizeable loss. Furthermore, the potential for additional loss is almost certain given the glut of securities that will be sold in a relatively short period of time, creating a buyer's market at the expense of community banks. The write-down and negative impact of capital will occur now, in this quarter – not in the future – which comes to an end only a few short days away. Every business on Main Street not only adheres to, but lives and dies by accounting rules. In this instance, this means community banks will be forced to absorb an immediate accounting loss – for a rule that won't even take effect until 2015.

No business in America could possibly be expected to prepare for such an occurrence, much less be able to absorb such a loss. Community banks were not afforded the luxury of preparing for this possibility as the inclusion of these securities – and the impact on community banks – were not contemplated in any proposal of the Rule prior to its finalization.

To make matters worse, the *Frequently Asked Questions* document that was issued on December 19 provides additional guidance, but at the cost of placing even additional responsibility in the hands of community banks. Community banks are being tasked with making immediate structural decisions affecting their short- and long-term financial future on top of the ones they are already being forced to make – when we are nearly at year's end and there is great uncertainty and confusion surrounding a rule that was just released.

We are deeply concerned the current Volcker Rule will devastate community banks in our districts and throughout the country. Community banks were not responsible for the financial meltdown. They should not get caught up in a one-size-fits-all approach to regulation, especially when financial institutions come in all shapes and sizes. We believe this was not the regulators' intent, and we strongly urge you to immediately correct these shortcomings.

Thank you for your prompt attention to this matter.

Sincerely,

Jim Cooper
Member of Congress

David Scott
Member of Congress