STEPHEN LEE FINCHER
8TH DISTRICT, TENNESSEE

COMMITTEE ON
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SUBCOMMITTEE ON
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Congress of the United States
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December 20, 2013

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20552

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

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

Re: Volcker Rule and the Treatment of Community Bank-Held CDO TruPs

Dear Chairman Gruenberg, Comptroller Curry, and Chairman Bernanke,

I write to request your prompt and immediate action to correct a provision of the final Volcker Rule that will cause grave, unintended and immediate harm to hundreds of community banks and hamper our nation's economic recovery. According to reports from the banking industry, there are at least six banks located in or very near Tennessee's Eighth Congressional district that will be affected by the Volcker Rule's treatment of community bank-held TruPS.

The final Volcker Rule requires all banks, including community banks, to divest their holdings of collateralized debt obligations (CDOs) backed by trust preferred securities (TruPs) by July 2015. The impact of this provision will be immediate because accounting standards require these community banks to recognize an impairment of their investments prior to year-end 2013. The divestment requirement will immediately drive down the value of these instruments, and the write down will be based on fire sale prices that bear no relation to their true long term value. Left unaddressed, this requirement could cause a significant, immediate and permanent loss of capital to hundreds of community banks that are still recovering from the financial crash.

Historically low interest rates and high regulatory compliance costs only magnify the risk created by this unexpected write down requirement.

In addition, the divestment requirement may present a significantly expanded list of problem banks identified by the FDIC. This rule may contribute to further bank insolvency in the coming months or years.

As you know, the intent of the Volcker rule was to prohibit proprietary trading by the large banks and to bar their ownership of hedge funds and private equity funds. The Rule should not be interpreted in a way that arbitrarily damages the capital and earnings of small community banks that played no part in the financial meltdown. This provision will do nothing to address systemic financial risk.

I urge you to issue guidance immediately to clarify that banks do not have to permanently write these instruments down to liquidation value prior to year-end under current accounting standards. Furthermore, I urge you to reconsider these investments as ownership of "covered funds" under the Volcker rule.

Thank you for your immediate attention to this pressing issue.

Sincerely,

Stephen Fincher
Member of Congress