

Proposal: 1638 (AF29) Reg Q - Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking

Description:

Comment ID: 133745

From: Dean Bank, Kevin Goffe

Proposal: 1638 (AF29) Reg Q - Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking

Subject: R-1638; Reg Q - Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Org

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Chairman Powell,

As a community banker, I am responding to your proposal to establish a community bank leverage ratio ("CBLR") as a way to simplify the capital requirements for community banks. Specifically, the proposal calls for the establishment of a CBLR consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act that would allow banks and holding companies of less than \$10 billion in assets with a tangible equity-to-assets leverage ratio of greater than 9 percent to opt into a CBLR framework and not be subject to other risk-based and leverage capital requirements. These banks would also be considered "well capitalized" under the banking agencies' Prompt Corrective Action (PCA) framework.

While I commend the agencies for several parts of the proposal, particularly the ease at which community banks may opt-in and opt-out of the CBLR framework, the proposed CBLR of 9 percent is too high. Establishing the ratio at 8 percent, as allowed by the statute, would calibrate the CBLR closer to current risk-based capital requirements for well-capitalized banks including the common equity tier one ratio of 6.5 percent and the tier one risk-based capital ratio of 8 percent. Furthermore, an 8 percent CBLR would put the ratio closer to the current 5 percent leverage requirement for well-capitalized banks, and would allow approximately 600 more community banks to be eligible to use the new framework.

The proposal to establish a new and separate PCA framework within the CBLR framework is not necessary and could result in unintended consequences. There is no need to establish "proxies" under the CBLR framework for adequately capitalized, undercapitalized and significantly undercapitalized PCA thresholds. Such proxies could serve as an unwarranted penalty for banks that elect the CBLR. Instead, a CBLR bank that falls below the CBLR should be given the opportunity to demonstrate that it is well capitalized under the current PCA Framework before being downgraded to adequately capitalized. To do otherwise could result in the CBLR becoming the new, de facto minimum capital requirement for CBLR banks.

In addition to establishing the CBLR, the banking agencies should continue their efforts to simplify Basel III to reduce the regulatory burden that community banks experience when complying with risk-based capital requirements.

In specific terms related to our well-capitalized community bank with assets just over \$300 million, this 9% Community Bank Leverage Ratio would restrict our growth initially by \$8,000,000, the equivalent of 40 residential mortgages or 80 small business loans. The smaller balance sheet (without taking on additional risks) would produce lower earnings going forward, further diminishing our ability to grow. Our projected 2025 balance sheet would be reduced by \$30 million and the bank would have \$600,000 less in accumulated earnings in order to maintain the higher capital standard. This growth represents the equivalent of 150 residential mortgages or 300 small business loans in our community.

As a mutual cooperative bank earnings and growth are essential to our continued success. The higher capital standard will limit our future growth and thus increase our overall risk of future success.

Thank you for the opportunity to provide feedback on the effects of the proposed changes.

Sincerely,

Kevin Goffe

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