

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

Description:

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From: The Citizens Bank of Edmond, Jill Castilla

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:

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Proposal: Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations [R-1638]

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Your comment: RE: Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations [R-1638]

Chairman Powell,

As the leader of a small community bank, I am very concerned about the impact of the proposed regulatory capital rule on my bank and other small institutions like mine. The largest shareholder of our bank is our employee stock ownership program, ESOP, with all remaining shareholders being regular citizens with roots within blocks of our bank. In 2009, our bank experienced a crisis that tested our resolve to continue independent operations. Through effective balance sheet and capital management, we were able to swiftly turnaround our institution while preserving the ESOP ownership. Over the past 6 years, we have consolidated locations into just one branch while located in a highly competitive, high bank concentration area. We have also expanded our services to increase our volume of mortgage and small business lending while inventing technology to improve customer accessibility to banking services beyond our one office. Senate Bill 2155 gave us hope that our 118 year old institution would have some regulatory relief that would allow us to remain relevant and sustainable for another century. Upon my initial understanding of the proposed rule, I had expected that community banks would continue to calculate their risk weighted assets according to Basel III, but would not have to comply with the Basel III requirements if their Community Bank Leverage Ratio, CBLR, was at or above the proposed 9 percent. I assumed that the bank would continue to complete the RC-R schedule of the call report and, if the CBLR was at or above the proposed level and the assets inputted on RC-A were within the community bank definition, the community bank would be exempted from the capital requirements associated with Basel III. I came to understand that there was an "opt in" requirement of the CBLR, and the CBLR became the new Prompt Corrective Action, PCA, level to determine the

bank's well capitalized status, an increase of 400 basis points from the current PCA level. Our bank currently maintains a leverage ratio more than 500 basis points about the PCA well capitalized threshold and, if this rule stays as presented, the CBLR would result in our capital increasing to a level well beyond what would be reasonable to sustain our ESOP's investment. This substantial increase in PCA requirements is in conflict with the intention of the law to provide regulatory relief to the nation's community banks. While penalizing community banks with a increased well capitalized requirement, the establishment of the CBLR at 9 percent is also too high.

In the rule's current form, our bank would opt out and continue to comply with the Basel III requirements intended for the international financial community not community banks. This choice would decrease the bank's small business lending activity in and around our community. For example, customers that have held land for long periods of time and where the land has appreciated conservatively yet consistently over that period would have to find financing elsewhere if they were contributing their land as the equity for the development of their asset. I understand that these loans are highly volatile in the nation's cities with aggressive appreciation; however, they are not highly volatile in central Oklahoma yet would be categorized as such using the Basel III criteria. In this example, customers have less choice and, ultimately, less favorable terms and pricing, because the community bank is out of the mix. Although our bank maintains a CBLR well above the proposed rule, we would not want to assume the risk of potentially violating the PCA well capitalized threshold especially given the lack of flexibility to shift between CBLR and risk weighted calculations. If the CBLR was changed to 8 percent, the PCA framework stayed in its current form (prior to this proposed rule) and the CBLR was a capital trigger to require compliance/computation for the risk rated capital approach based on Basel III, our small community bank would choose to opt in. If our bank opted in, we would continue to calculate and model our performance related to the Basel III capital criteria as part of our capital planning.

To summarize, our feedback is to separate the CBLR from PCA requirements, automatically shift a community bank to the risk weighted capital model criteria if their CBLR falls below the threshold and shift back to the CBLR when it complies, and decrease the CBLR to 8 percent to ensure the long-term viability of community banking.

Thank you for the opportunity to comment and for your commitment to reduce the regulatory burden of community banks.

Sincerely,
Jill Castilla
President and CEO
The Citizens Bank of Edmond