Community Banking Association of Illinois Community Bank CEO Forum
BASEL III comments from Community Bankers
August 3, 2012

Participants: Chuck Luse and Jenna Pellus (Federal Reserve Bank of Chicago)

Jon Kranov (Ottawa Savings); Fritz Kuhlmeier (Citizens State); Kevin McKee (Savanna Thomson State Bank); Jim Renn (Lisle Savings); Harold Sherman (GreenChoice); Tony Sisto (STC Capital); Dave Stanton (PeopleFirst); and Dianna Torman (Prairie Community)

Summary: Chuck Luse of the Federal Reserve Bank of Chicago presented at the Community Banking Association of Illinois CEO Forum to a CEO group comprised of eight community bankers from the northern Illinois area. The purpose of the forum was to discuss the new capital standards for community banks as proposed in the BASEL III and Standardized Approach NPRs. During the forum, participants raised the following issues—

1. It was suggested that the PCA threshold for well capitalized be consistent with the BASEL III capital buffer requirement.

2. Will a balloon mortgage always have a greater risk weight just because it is a balloon? Is it necessary to re-underwrite these mortgages to reduce capital requirements? Will loan call features (at the bank’s option) and balloons be treated the same? There was a general sentiment of the group that holding higher capital for mortgage loans with balloon features disadvantages community banks and its customers (nonconforming mortgage loans need to be structured with shorter maturities in order for community banks to retain these loans on their books).

3. Is it reasonable to think IT systems will be ready by 2015 for loan commitments and other off balance sheet items? Most reports do not currently calculate loan to value automatically as well as past due loan information. This could impact overhead costs as many community banks will need to devote personnel to manually collect some of this information.

4. Fluctuations in pricing of AFS securities could result in large swings in capital ratios, particularly given the current interest rate environment.