MORTGAGE BANKERS ASSOCIATION

INDEPENDENT COMMUNITY BANKERS of AMERICA®

December 18, 2018

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

The Honorable Joseph Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

The Honorable Randal K. Quarles
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
Eccles Board Building
20th and C Street, N.W.
Washington, D.C. 20219

Re: Update and Request for Meeting on Finalization of Proposed Simplifications to the Capital Rule Proposal Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) of 1996

Dear Chairman McWilliams, Comptroller Otting, and Vice Chairman Quarles:

The undersigned associations (Mortgage Bankers Association (MBA), Independent Community Bankers of America (ICBA), collectively, the "Associations")[1] are writing this letter to request a

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,300 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than $4.9 trillion in assets, $3.9 trillion in deposits, and $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

meeting to discuss the status of the Notice of Proposed Rulemaking[2] issued by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve (collectively "the Agencies") proposing to reduce regulatory compliance burdens, particularly on community banking organizations, by simplifying certain aspects of the Agencies' capital rules (the "Proposal").

The Proposal, which was issued on September 27, 2017, and open for comments from interested parties until December 26, 2017, focused on two specific areas:

1) Regulatory deductions (more specifically, application of the Basel III rules to non-advanced approaches banking organizations); and

2) High Volatility Commercial Real Estate (HVCRE).

This letter focuses only on the status of the Proposal as it relates to the topic of regulatory deductions for non-advanced approaches banking organizations. Under this topic, the Agencies proposed to simplify the regulatory capital rules calculations for small banks, and especially, requested comments on proposals to:

a. Increase the cap on the amount of mortgage servicing assets (MSAs) that can be included in Tier 1 capital from 10% to 25%;
b. Eliminate the 15% cap on the aggregate amount of MSAs, DTAs and certain other assets that can be included in Tier 1 capital; and
c. Retain the Basel III 250% risk weighting for MSAs.

The Associations submitted individual comments providing very detailed feedback on several aspects of the Proposal. We fully supported the proposal to eliminate the 15% cap on the aggregate amount of MSAs, DTAs and certain other assets that can be included in Tier 1 capital, but strongly recommended that the Agencies (i) increase the cap on the amount of mortgage servicing assets (MSAs) that can be included in Tier 1 capital from 10% to 50% (instead of the proposed 25%); and (ii) reduce the risk weight for MSAs to at least 130%, with a further reduction to 100% for banks with total consolidated assets of $50 billion or less.

The Associations strongly support the Agencies' efforts to simplify the rules in order to reduce unnecessary complexity and eliminate provisions that create unnecessary burdens and hinder financial stability and economic growth. However, it is frustrating that the Proposal has not been finalized, even after almost a year after the comment period closed. The lack of final rules continues to create capital planning challenges for many banks due to lack of certainty on several issues addressed in the Proposal. Recently, the Agencies issued proposed rules implementing the Community Bank Leverage Ratio (CBLR) framework -- a provision that was included in the

Regulatory Reform law passed by Congress this year. While this new provision provides an important benefit (regulatory burden relief) for qualifying community banks, including simplified regulatory capital calculations that would allow an entity to avoid the Basel III MSA rules, and therefore, not be subject to the rules under the Proposal, the fact is that some community banks would not qualify for this benefit because of the strict eligibility factors that apply under the CBLR framework. In fact, many of our members would still be subject to the Proposal, which is yet to be finalized.

While the industry understands that the Agencies have extended a significant amount of capital and efforts working on implementing the provisions of the Regulatory Reform bill, it is important to stress that because many community banks would not be eligible for the CBLR provision, and are currently operating under the Basel III implementation pause (the "Freeze"), finalizing the Proposal with our recommended 50% threshold and greatly reduced risk weighting would provide much-needed certainty and some level of regulatory capital relief for these institutions.

The Associations understand and appreciate the fact that the Agencies are still evaluating submitted comments[3] on the Proposal (almost a year after the close of the comment period) in order to consider all views and obtain robust feedback and input. However, there is no question that the comment review period would need to be cut off at some point so that the Proposal can be finalized. Clearly, the review period cannot be open indefinitely, while institutions operate under uncertain or non-final rules. Furthermore, the Agencies noted that they used the Proposal's 25% threshold as a reference point in the CBLR framework proposal.[4] The Associations believe that this brings in a level of complication that undermines the intended simplification effort the Agencies have been talking about. If the Proposal has not been finalized, it is unclear why the Agencies would reference items in the Proposal in a way that further reduced the amount of community banks that would be eligible for the CBLR framework. Since these are two very separate provisions, we suggest that the Agencies treat them as such, and not allow the contents of one influence the other. For instance, now that the Agencies have used the Proposal's 25% threshold in the CBLR framework, they should not be bound by that number as it relates to the Proposal. We continue to strongly suggest that the Agencies consider a 50% threshold for MSAs under the Proposal.

The Associations therefore, urge the Agencies to immediately close the comment review period, and finalize the Proposal reflecting our recommendations, so that eligible community banks can take advantage of the simplified final rules. We are specifically requesting a meeting with the Agencies to discuss this issue in greater details.

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[3] See footnote 8 of the CBLR proposal (titled "Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations." Footnote 8 states that "[t]he agencies continue to evaluate comments on the simplifications proposal."
[4] See page 22 of the CBLR proposal – "The proposed MSA qualifying criterion [***in the CBLR proposal***] is aligned with the proposed threshold for MSAs in the simplifications proposal discussed above."

Thank you for your consideration. If you have any questions or require any additional information, please feel free to contact Fran Mordi (fmordi@mba.org or (202) 557-2860) for MBA; or James Kendrick (james.kendrick@icba.org or (202) 821-4364) for ICBA.

Sincerely,

Stephen A. O'Connor	James Kendrick
Senior Vice President	First Vice President
Public Policy and Industry Relations	Accounting & Capital Policy
Mortgage Bankers Association	Independent Community Bankers of America