



INDEPENDENT COMMUNITY
BANKERS *of* AMERICA

Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

June 28, 2007

Dear Senator:

On behalf of the nation's community bankers, I urge you to oppose efforts to eliminate safeguards from the new risk-based capital adequacy rules for the largest banks known as Basel II. **These safeguards are needed to insure that Basel II does not jeopardize the safety and soundness of our largest banks or the FDIC insurance fund and does not significantly alter the domestic competitive landscape for the industry.**

ICBA concurs with comments made by FDIC Chairman Sheila Bair regarding international competition and Basel II. While we do not want to see our largest banks at a competitive disadvantage because of U.S. Basel II rules, neither should U.S. banking regulators participate in a "race to the bottom" in bank capital standards. It is a strength, not a weakness, to have strong capital standards and, therefore, strong, well-capitalized banking institutions. Regulators should not adopt measures in the name of competitiveness that would negatively affect the stability of our global financial system.

Large Basel II banks are advocating that agencies drop the so-called "10% transitional tripwire" that would require review and significant revision of Basel II if, during the three-year Basel II transition period, there was a 10% or more decline in aggregate minimum risk-based capital of the Basel II banks (as compared to minimum required capital determined under the existing Basel I rules). They are also critical of the transitional floors that would limit the reduction of their risk-based capital in any year during the transition period to 5% and of the retention of the tier 1 leverage capital-to-assets ratio requirement. They argue that these transitional safeguards and the leverage capital requirement will limit their ability to compete with the large foreign banks.

To ensure competitive equality and the safety and soundness of the banking system, ICBA believes it is critical that the agencies incorporate all of the Basel II transitional safeguards and the leverage capital ratio into the final Basel II rules. Without the 10% tripwire, for instance, there would be no commitment by the agencies to revise Basel II even if there was a large decline in aggregate minimum risk-based capital.

In addition, the retention of the leverage ratio, both during and after the transition period, is important to maintaining the safety and soundness of our banking system and is a needed complement to the Basel II framework that relies on each bank's own inputs and risk parameters. The final rules must ensure adequate minimum capital levels and a strong base level of capital for safety and soundness in all economic conditions.

Community banks are also concerned that they would be at a competitive disadvantage if the new rules allow a few large banks to operate with very little capital and the rest of the industry is required to hold a significantly larger percentage of capital. An FDIC staff study indicated that even with the implementation of Basel IA, the Basel II adopters would continue to have a significant capital advantage particularly with respect to many types of residential mortgage, retail and small business loans. To compete with larger banks, community banks could be forced to make concessions in pricing and underwriting guidelines that could impair their profitability and ultimately, their viability. ICBA believes that this would further accelerate consolidation in the industry as the larger, Basel II banks, acquire smaller banks in order to further leverage their capital. As more of the large banks opt-in to Basel II over the long-term, this may also threaten the viability of community banks. The consolidation of banking assets in fewer and fewer large institutions does not serve the diversity and complexity of the American economy well.

As a member of the Committee with oversight jurisdiction of the capital requirements and safety and soundness of the banking industry, **ICBA urges your support for the retention of all of the transitional safeguards in the final Basel II rules, including the 10% transitional tripwire, and the retention of the leverage capital ratio. The final rules should ensure the safety and soundness of our largest banks and equilibrium in our domestic competitive landscape so that community banks can continue to fulfill their important role in advancing economic growth and development in local communities across our nation.**

Sincerely,

A handwritten signature in cursive script that reads "Camden R. Fine". The signature is written in black ink and is positioned above the printed name and title.

Camden R. Fine
President and CEO