INDEPENDENT COMMUNITY
BANKERS of AMERICA®

September 20, 2021

Ms. Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Mr. Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20h Street & Constitution Avenue, NW
Washington, DC 20551

Mr. Michael Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Re: Community Bank Leverage Ratio

Dear Ladies and Gentlemen:

The Independent Community Bankers of America ("ICBA")[1] would like to thank the prudential bank regulators for their tireless efforts to bring regulatory capital relief to community banks during the unprecedented global COVID-19 pandemic. Your work to implement the Congressional action taken under the Coronavirus Aid, Relief, and Economic Security Act

[1] 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.

(CARES Act), particularly the regulations calling for a reduction in the community bank leverage ratio (CBLR) from 9% to 8% in 2020 and 8.5% in 2021, provided a source of stability for community banks as they focused intently on meeting the needs of their customers in local communities across the nation that were struggling to cope with such a monumental health crisis. This CBLR relief was a much-needed accommodation for bank balance sheets that had grown rapidly in a matter of months due to the flurry of deposits that were pouring into both consumer and business accounts. Community banks truly appreciate your efforts.

However, ICBA continues to have concerns about the current state of deposit growth in community banks as COVID relief measures continue to be forthcoming to households and businesses. Deposit runoff can never be an exact science when community bank customers are trying to operate their financial affairs in the midst of a global health crisis and it's not clear to the community banks across the country that the large influx of deposits will soon decline to a level that brings regulatory capital ratios back in line with historical, pre-pandemic levels. Banks are concerned that the end of 2021 will not bring about a leverage measurement that allows them to meet the 9% CBLR requirement that is set to return in 2022.

Therefore, ICBA requests that the prudential bank regulators extend the current reduced 8.5% CBLR requirement for one more year or to the end of 2022 to accommodate the expected continued inflow or maintenance of deposits at community banks. Otherwise, community banks will be forced to curtail their small business lending in 2022 to comply with the higher 9% CBLR level. A reduced CBLR of 8.5% will allow community banks next year to continue serving their communities and their small business customers at the same level that they did this year.

Call report trends indicate that there has been a sudden but expected dramatic increase in the amount of cash and similar highly liquid asset balances at community banks during the pandemic. ICBA notes that such balances at community banks have more than doubled from approximately $352 billion at the end of 2019 to approximately $719 billion at mid-year 2021. Community bankers report that federal, state, and local government stimulus programs have played a prominent role in contributing to such increases as small businesses and households preserve a significant portion of the funds they have received. Community banks that adopt the CBLR should not be penalized during periods of increased government stimulus payments.

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

SAUK CENTRE, MN
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

866-843-4222
www.icba.org

Therefore, during periods of unprecedented deposit inflows, the banks regulators should consider allowing community banks the option to adjust the ratio of tier 1 capital to total consolidated assets used to calculate the CBLR. Specifically, regulators should allow community banks to exclude from the CBLR denominator any cash or cash equivalent overnight investments. This exclusion would encompass such items as overnight reverse repurchase agreements secured by U.S. government securities, short-term deposits in other insured depository institutions, and funds deposited with the Federal Reserve or Federal Home Loan Bank system. Such adjustment would be temporary and only last during a deposit surge but would allow community banks to continue operating without concerns about decreases in their required regulatory capital.

ICBA has heard anecdotally from members that CAMELS ratings are going down because of the deterioration of their leverage ratios. We ask that examiners employ some flexibility and take into consideration the increased leverage that the pandemic relief efforts have had on community bank balance sheets when evaluating community bank regulatory capital levels. Community banks should not be downgraded and suffer the consequences of lower CAMELS ratings simply because their balance sheets are temporarily inflated with deposits due to government support programs.

Again, ICBA commends your agencies for providing regulatory relief in this unprecedented time of balance sheet and capital strain for community banks. We are hopeful that the agencies recognize that these stresses will not be dissipating soon and that regulators will continue to assist community banks in meeting the needs of their customers.

Sincerely,

/s/

Rebeca Romero Rainey
President and CEO

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

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518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

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