AMERICA'S MUTUAL BANKS

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Mutual Alert

November 29, 2012

AMB today provided the attached written testimony at the joint hearing before the House Financial Services Subcommittees on Financial Institutions and Consumer Credit and Insurance, Housing and Community Opportunity held to examine the impact of the federal banking agencies proposed rules to implement the Basel III capital standards.

In addition to AMB, testimony was provided by senior staff of the three federal banking agencies together with the Tennessee Commissioner of Financial Institutions on behalf of the Conference of State Bank Supervisors and the Insurance Commissioner of Florida on behalf of the National Association of Insurance Commissioners. Testimony was also provided by representatives of academia and the banking and insurance industries. Many members participated in the hearing in person and there was an extensive and lengthy period of questions and answers.

All of the members appeared to be genuinely focused on the issues and sympathetic to the plight of community banks and the apparent overreach by the agencies. The concern was bi-partisan and the incoming committee chair stated that it was clear it didn't matter what side of the isle members were on. Many of the questions picked up, almost verbatim, elements of AMB's comment letter to the agencies. Members uniformly remarked that the "one size fits all" approach is inappropriate. Many indicated that the agencies had "painted with to broad a brush" and that the agencies claim that over 90% of community banks should not have a problem with the proposals was "a snapshot in time" and not indicative of what the proposals might beget in the future.

The representatives of the agencies were resolute in their positions that they thought the proposals were already well balanced. Some Congressional staffers muttered that defiant might not be a too strong a word and wondered if the regulators realized that the Congressional concern is not partisan. However, the regulators conceded that in light of the sheer volume of comments (over 2,500) and other feedback from Congress and the public, the agencies were giving serious consideration to modifying the proposals. They did not share any details as to what the modifications might look like.

The state regulators were equally forceful in their positions that the proposals were materially flawed and needed much more than mere editing. A representative from State Farm Insurance Company (a mutual insurance company) injected that mutual institutions hadn't really been considered in the drafting of the proposals. Granted, he was thinking more about insurance companies than banks, but the concept was at least put on the record by another entity and will make it that much more recognizable when AMB brings it up in the future.

AMB's testimony, while generally focused on mutuality, discussed specifically the inherent problems in the proposals related to capital calculations and lack of any alternative means for a mutual bank to enhance its capital; hence the need for a mutual investment certificate. Numerous members asked questions about the likelihood of wide fluctuations in capital calculations resulting from the recording of unrealized gains and losses on available-for-sale securities. It is clear that the members were well coached on this issue.

As stated above, the members of the subcommittees appeared to be uniformly sympathetic to the concerns raised by the community banking industry. Whether the regulators appreciate how strong the concern of the Congress is, only time will tell.