



**The Community Partners
Financial Group**

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November 3, 2003

Office of the Comptroller of the Currency
250 E Street, SW, Public Information Room,
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Washington, DC 20219

Attention: Docket No. 03-14
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e-mail: regs.comments@occ.treas.gov

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1154
Fax: 202-452-3819, 202-452-3102
e-mail: regs.comments@federalreserve.gov

Robert E. Feldman
Executive Secretary,
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Attention: Comments
Fax: 202-898-3838
e-mail: Comments@FDIC.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

Attention: No. 2003-27
Fax: 202-906-6518
e-mail: regs.comments@ots.treas.gov

Re: Comments – New Basel Capital Accord

Dear Ladies and Gentlemen:

We appreciate the opportunity to comment on the federal banking agencies' joint proposal to implement the New Basel Capital Accord ("Basel II") released on April 29 by the Basel Supervisors Committee of the G-10.

We applaud the agencies' exclusion of bank investments in community development corporations (CDCs) and community and economic development entities (CEDEs) from the enhanced capital charges that would be imposed by Basel II on equity investments of banks whose total equity investments exceed a defined materiality threshold. Such investments serve important public policy objectives and often have legislatively enhanced risk-return characteristics that make them safer and less in need of capital support than market return investments. As such, it is appropriate to exempt such investments from the higher capital charges imposed by the advanced approaches of Basel II.

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For the same reasons, we urge the agencies to broaden the exemption for "legislated program equity exposures" to exempt all investments that would qualify for favorable consideration under the Community Reinvestment Act or as "public welfare" investments under Part 24 of the Comptroller of the Currency's regulations. Public welfare investments, which include CDC and CEDE investments, promote important public policy objectives and often have enhanced risk-return profiles that require less capital support. As such, public welfare investments (including all CRA-qualified investments) should be explicitly added to the definition of legislated program equity exposures exempt from Basel II's heightened capital requirements.

In addition, we urge the agencies to exclude such public welfare and CRA-qualified investments from the calculation of the materiality threshold required to trigger application of Basel II's A-IRB approach for equity exposures. The present proposal's inclusion of such investments for purposes of the materiality threshold threatens to reduce the flow of investment capital to legislatively favored programs and projects. If the proposal is adopted as proposed, some banks may reduce their investments in CRA and public welfare investments in order to avoid being subjected to enhanced capital charges on their other, market return investments.

We understand that the proposed new capital requirements set forth in Basel II will only apply, at least initially, to the largest and most internationally active banks. Nevertheless, we are concerned that the proposal, as drafted, will (i) deter such banks from making needed public welfare and CRA investments, and (ii) set a regulatory precedent, which may later be extended to banks generally.

Thank you very much for the opportunity to submit comments on the agencies' proposal to implement the New Basel Accord. We would be happy to provide additional information and to answer any questions you may have about our comments and concerns expressed in this letter.

Very truly yours,



Bradley C. Jefferies
Chief Executive Officer

BCJ/rjp