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Manager of Dissemination Branch INFORMATION SERVICES
Information Management & Services Division DIVISION
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

RE: Advance Notice of Proposed Rulemaking Regarding a Simplified Capital Framework

The Financial Institutions Accounting Committee (FIAC) is pleased to respond to the interagency notice and request for comment (Federal Register, November 3, 2000) on the Advance Notice of Proposed Rulemaking Regarding a Simplified Capital Framework. FIAC is a group of 16 financial professionals working in executive level positions in the thrift and banking industries and is affiliated with the Financial Managers Society.

FIAC's primary responsibility is to evaluate those regulatory matters that affect financial institutions. The comments within this letter are representative of FIAC as a whole and do not necessarily reflect the views of the individual institutions represented on the committee.

The comments requested in the Federal Register identify a number of issues for comment. We have chosen to comment on several of the questions that are presented that we feel are the more pertinent issues at hand.

Question 1: Do institutions view maintenance of the current risk based capital standards as posing undue burden for small institutions?

No. Financial institutions are already preparing risk based capital computations for call reports and most are only required to report the results based on their internal models. Since all institutions are required to submit their call reports electronically, the majority is using call report software to prepare these reports. All of the software vendors for the call reports offer or provide software for computing the risk based capital ratios after the call report is complete. Other vendors also provide software that will "read" the call report data, and by using a personal computer, will compute the required ratios. Many correspondent banks and investment firms offer this service free to smaller institutions.

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The current standards have been used for several years and we are not aware of any derogatory comments regarding the current regulations and requirements.

Question 2: For non-complex institutions, should the Agencies maintain the current risk based capital standards or develop a simplified capital adequacy framework? What are the advantages and disadvantages of adopting a separate framework?

The disadvantages far outweigh the advantages. Adding another layer of capital regulations would add more complexity to the current capital standards. Prompt Corrective Action rules would have to be modified to add the new capital framework for non-complex, institutions. There is also the possibility that an institution would be ruled as non-complex but at some point in the future, they may no longer meet the definition and they would have to revert back to the original capital standards.

The Uniform Bank Performance Report (UBPR) would have to be revised and would not allow users of this information to compare one institution to another if one is deemed complex and the other non-complex. The current capital requirements are required in an institution's audited financial statements annually and will have to be prepared in addition to the new simplified standards, if adopted.

Question 5: What are the advantages and disadvantages of using asset size to determine "complexity"? What would be a reasonable and appropriate asset size limit for banking organizations to qualify for the non-complex framework?

Asset size can not be used as a test of complexity. One can not ignore the basic composition of the balance sheet regardless of size. Two institutions could have total assets of $750 Million with one having a loan to asset ratio of 80% and the other 50%. The asset size alone does not address the additional risk that is present in the higher loan to asset ratio bank. Using a simplified structure could eliminate the current framework of accessing risk based on the types of assets that the institution has on its' balance sheet.

Question 11: Should the institution have the option to decide whether to use the simplified framework?

The goal of capital regulations needs to be consistency. If a new framework is adopted, all institutions that meet the criteria should be required to use the new standards. Again, the current structure should be maintained to keep consistency in financial reporting among financial institutions.

Question 13: Should classes of assets be re-assigned to other and potentially new risk weights based on relative comparisons of historical charge-off or other empirical sources, including but not limited to credit ratings?

It would seem appropriate to expand the current risk based capital regulations to include more risk categories. For example, a municipal revenue bond and a one to four family first-lien mortgage are both placed in the 50% category. The risk is generally lower for the security than for the loan. One could add an additional risk bracket between the 20% and the 50%.

Question 14: Is a leverage ratio a sufficient method for determining capital adequacy of non-complex institutions in a range of economic conditions?

No. As stated previously, this ignores the type of assets that the institution holds. The other factor that is ignored is the existence of off balance sheet items such as unused loan commitments and letters of credit. Almost all institutions deal with these types of off balance sheet assets.

Question 16: What degree of burden reduction is foreseeable regarding any of the alternatives? Do the foreseeable benefits of burden reduction outweigh any concerns about establishing a non-complex framework?

There appears to be no significant burden reduction if a new capital standard is adopted. As mentioned previously, the current risk based capital ratios will continue to be calculated for audited financial statement purposes. If any relief were given, it should be in the form of less frequency of reporting (e.g., report only as of June 30 and December 31).

Adding another layer of capital adequacy measurement defeats the purpose of consistency and uniformity. Complexity can not be based on size only and one can not ignore the composition of the balance sheet regardless of size. Given the evidence presented, FIAC believes that no change should be made in the current capital regulations, particularly dealing with risk based capital.

FIAC appreciates the opportunity to comment on this notice, and our members would be happy to discuss these issues with you or your staff should you so desire.

Sincerely,

William C. Nunan
Chairman

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