NEW JERSEY LEAGUE
OF COMMUNITY BANKERS

411 North Avenue East · Cranford · New Jersey 07016-2436 · (908) 272-8500 · Fax (908) 272-6626 · Website: www.njleague.com

January 18, 2006

Office of the Comptroller of the Currency
250 E Street, S.W.
Mailstop 1-5
Washington, DC 20219
Attention Docket No. 05-16
regs.comments@occ.treas.gov

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Attention: Docket No. R-1238
regs.comments@federalreserve.gov

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
comments@FDIC.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, DC 20552
Attention: No. 2005-40
regs.comments@ots.treas.gov

Re: Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Domestic Capital Modifications
70 FR 61068 (October 20, 2005)

Dear Sir or Madam:

The Accounting & Tax Committee of the New Jersey League of Community Bankers* (committee) is pleased to comment on changes to the risk-based capital framework for depository institutions in the United States. The committee believes that it is an appropriate time to review the current capital requirements and revise them to reflect the changes in risk management and operations that have occurred over the last decade and strongly believes that Basel II should not be implemented unless changes are made to Basel I for all other depository institutions. Otherwise, we believe that Basel I banks would be left at a serious competitive disadvantage and also would become acquisition targets for Basel II banks.

* The New Jersey League of Community Bankers, founded in 1908, is a trade association representing 75 of New Jersey's savings banks, savings & loan associations and commercial banks with total assets of over $85 billion. The League's wholly-owned subsidiary, the Thrift Institutions Community Investment Corporation ("T.I.C.I.C.") assists League members in forming consortia to make loans on low-to-moderate income housing and economic development projects throughout New Jersey. Since its founding in September 1991, T.I.C.I.C. has closed almost $250 million in loans to create over 4,700 units of housing affordable to families, senior citizens and citizens with special needs. In addition, TICIC's loan pipeline will create another 400 residential units to serve the needs of communities throughout the state.

The following is a summary of our position on questions contained in the proposal:

- The committee strongly supports risk buckets based on loan-to-value ("LTV") ratios for one-to-four family residential mortgage loans. If other risk criteria, such as credit scores and debt-to-income ratios are to be included in a revised Basel I, they should be optional for those institutions that wish to incur additional burden in order to have capital requirements even more closely aligned with risk.

- The risk criteria that should be taken into account to differentiate multifamily residential mortgages should be LTV ratios and number of units. A similar approach to the buckets for single-family residential mortgage loans should be used to stratify these mortgages based on risk.

- The collateral value for automobile and other secured consumer loans should be taken into account to differentiate these loans by LTV ratios. The agencies should consider allowing an option for banks to also use the loan term, credit scores and debt-to-income ratios for other types of unsecured retail loans to attain an even more accurately aligned risk-weighting.

- The committee supports the approach in the proposal that would provide lower risk weights for commercial real estate loans that meet certain conditions, such as compliance with appropriate underwriting standards and the presence of an appropriate amount of long-term borrower equity. In order to ensure that Basel I banks are not put at a competitive disadvantage with regard to Basel II banks for the treatment of commercial real estate, we believe institutions should be provided an option to risk-weight these loans in additional buckets using LTV ratios and loan terms as risk drivers.

- The committee believes that it is appropriate to provide a lower risk-weight for small business loans that have lower LTV ratios based on the value of eligible collateral, no defaults and full amortization over a seven-year period. Two or three buckets should be available to institutions that are willing to incur more burden, with loans slotted based on LTV ratios and loan term. An alternative could also be offered that would allow an institution to adjust the risk weighting based on the credit assessment of a shareholder guarantor. Small business loans should be defined as those loans under $2 million on a consolidated basis to a single borrower.

- While we support the use of credit ratings in determining the risk of commercial loans, we also urge the agencies to allow banks to use additional types of collateral and LTV ratios when no credit rating exists. Many League member banks make both large and small commercial loans to borrowers that do not have a credit rating. We believe the permitted use of additional non-rated collateral LTVs will help keep capital requirements fairly simple, encourage lending to creditworthy and unrated businesses, and avoid any potential competitive disadvantages.

- We believe the substantial cliff effect that occurs for short-term commitments should be removed by applying a credit conversion factor of 20 percent to all commitments regardless of term. This should not apply, however, to commitments that are unconditionally cancelable at any time or that effectively provide for automatic cancellation. These commitments should have a zero credit conversion factor.

- We do not support an increase in risk weighting for past due loans. Current regulatory requirements provide that depository institutions set aside reserves and take other steps to mitigate the risk of these loans and their impact on the institution. Also, an automatic upward adjustment without consideration of LTV ratios would not be appropriate.

- We believe that any expansion of the types of eligible collateral or guarantees that can be used to mitigate risk should be optional for the institution. Institutions that want to keep capital requirements simple and do not want the added burden of continually tracking collateral should have that option.

- We strongly believe that a leverage ratio should remain in effect.

- The agencies should consider developing, or encouraging third parties to develop, a simplified risk-modeling system that could be used by less complex banks to establish minimum capital requirements.

- Depository institutions of any size that would prefer to remain subject to Basel I as it currently exists should have the option to do so. Also, institutions should be provided flexibility to utilize some of the fundamental principles in a revised Basel Ia approach to gain a more risk-sensitive capital approach without undue burdens.

Thank you for the opportunity to comment on this important matter. I may be contacted at 908.272.8500, ext. 614, if you have any questions or would like to discuss this matter.

Sincerely,

James Meredith

James M. Meredith
Senior Vice President