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November 3, 2003

Ms. Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

Dear Ms. Johnson:

The Accounting & Tax Committee (the Committee<sup>2</sup>) of the New Jersey League of Community Bankers<sup>\*</sup> is pleased to comment on the Advance Notice of Proposed Rulemaking addressing the implementation in the United States of the new Basel Capital Accord (New Accord) being developed by the Basel Committee on Banking Supervision at the Bank for International Settlements.

The Committee agrees with the approach of the New Accord in trying to more closely link minimum capital requirements with an institution's risk profile. It is, however, concerned about the potential of the New Accord to create competitive inequities since only the largest financial institutions will have the ability to adopt a more risk-sensitive capital framework under the proposal. The New Accord could provide significant capital savings for institutions that focus on mortgage and other retail lending. While that is our member's core business, the cost and complexity of opting in to the New Accord does not make this a viable option for most of our community bank members. Community banks could end up holding higher capital under the current capital requirements as compared with global and potentially more risky institutions, making community banks a takeover target for institutions that can deploy capital more efficiently under the New Accord. Community banks might also find it more difficult to compete for quality assets and be forced to operate with less capital in order to provide more competitive pricing.

The New Accord should not be implemented in the United States until more information is gathered about its competitive effects. The banking regulators should work with the industry to develop a more streamlined approach that provides the benefits and incentives of the New Accord to all financial institutions operating in the United States.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink that reads 'James Meredith'.

James M. Meredith  
Senior Vice President

<sup>\*</sup> The New Jersey League of Community Bankers is a trade association representing 71 of New Jersey's savings banks, savings & loan associations and commercial banks with total assets of over \$50 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 projects. T.I.C.I.C. has facilitated loans on over 3,600 affordable housing units throughout New Jersey and has loans in process on nearly 1,700 more housing units.

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