

**Statement of**  
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**Office of the Comptroller of the Currency**  
**Before the**  
**Senate Committee on Banking, Housing, and Urban Affairs**  
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Chairman Johnson, Ranking Member Shelby and members of the Committee, I appreciate the opportunity to discuss the proposed capital rules issued by the federal banking agencies and their potential impact on the industry.

We have received extensive comments on the proposals from banks of all sizes. In response to concerns raised by commenters, we announced last week that we will delay the January 1 effective date.

We are especially mindful of the concerns that community bankers have raised about the potential burden and the impact these rules could have on their institutions.

Our goal is simple: to improve the safety and soundness of our nation's banking system by ensuring that banks of all sizes have sufficient capital to weather adverse conditions and unforeseen losses.

Strong capital plays a vital role in promoting financial stability and moderating downturns by facilitating banks' capacity to lend.

During the recent cycle, the banks that were best able to meet the credit needs of their customers and communities were those with strong capital bases. This underscores the principle that higher capital standards that apply to all banks are essential to the financial strength of the industry and our nation's economy.

Capital rules also need to reflect risks appropriately, and so under the proposals riskier loans – such as certain types of nontraditional mortgages – would require more capital.

We believe the proposals reinforce key objectives of the Dodd-Frank Act – specifically, promoting financial stability and requiring higher capital for riskier firms and activities.

The June rulemaking package consists of three notices of proposed rulemakings. Each NPR calibrates requirements to the size and riskiness of institutions so that larger banks will hold more capital and meet stricter standards than smaller ones.

These are not “one-size-fits-all” regulations.

The first proposal introduces a new measure for regulatory capital, Common Equity Tier 1, and two new capital buffers: a capital conservation buffer that would apply to all banks, and a countercyclical buffer that would apply only to the largest institutions.

For community banks, this would result in a Common Equity Tier 1 requirement of 7 percent of risk-weighted assets. For large, internationally active banks, this requirement could be as high as 13 percent when combined with a SIFI surcharge that is being considered internationally.

The second proposal, the Standardized Approach NPR, would modify certain risk-weightings so that riskier loans and activities require more capital.

Here, too, distinctions are made between small and large banks as certain provisions of the NPR, such as those related to securitization and credit risk mitigation, would have little or no application to most community banks.

The third proposal, the Advanced Approaches NPR, applies only to the largest, internationally active institutions and does not affect community banks.

To reduce possible adverse effects, especially for community banks that have less access to market sources of capital, the proposals include lengthy transition provision period.

Our preliminary assessment is that many community banks hold capital well above both the existing and the proposed regulatory minimums. Nevertheless, we took steps to maximize opportunities for community bankers to learn about and comment on the proposals. These steps included short summaries aimed at community banks, extensive outreach with community bankers, and a tool to help them assess the impact of the proposals.

While we have received comments on many issues, three overarching concerns have been raised.

First, many have cited the complexity of the rules. Community bankers in particular have questioned whether the proposals should apply to them.

Second, many have raised concerns about including unrealized losses and gains on available-for-sale debt securities in regulatory capital and the volatility that could result in capital levels and other limits tied to regulatory capital, such as legal lending limits.

Third, bankers have expressed concerns about the record-keeping burdens resulting from the proposed use of loan-to-value measures for residential mortgages, and the higher risk-weights that would be assigned to balloon residential mortgages.

As we consider these issues, we will continue to look for ways to reduce burden and complexity while maintaining our key objectives of raising the quantity and quality of capital and matching capital to risk. These enhancements will lead to a stronger, more stable financial system.

I appreciate your interest in this matter and will be happy to answer your questions.