

Statement of FDIC Vice Chairman Thomas M. Hoenig on the FDIC Board Approval of an Interagency Proposed Rule Related to the Retention of Certain Existing Transition Provisions for Banking Organizations Not Subject to the Advanced Approaches Capital Rules

August 22, 2017

I strongly support the prudential banking agencies' proposal to freeze the phase-in of the Basel 3 capital rules for community banks. Community banks engaging in traditional activities deserve meaningful relief from risk-based capital rules. They generally engage in less complex activities and have higher levels of tangible equity¹ than their larger bank counterparts, yet for the most part they have been subject to the same restrictions under Basel 3. This disparity puts them at a competitive disadvantage and is one of many factors negatively impacting the sector's long term prospects.

While this step to freeze the phase-in of Basel rules is important, our actions do not go far enough in providing the permanent and comprehensive relief that community banks so badly need and that I have long been advocating. Along the lines of my recommendations from 2015, such relief might be better achieved and sustained if predicated on a bank's activities and amount of tangible equity rather than asset size. Eligible banks would realize relief from not only Basel risk-based capital, but also from stress testing, appraisal requirements, exam frequency, and many other rules as outlined in the [term-sheet for traditional banks](#). About 90 percent of the approximately 5,700 U.S. commercial banks meet the criteria defining the business activities of a traditional bank, and two-thirds have capital levels that would allow us to credibly roll back these regulations.

I hope the NPR we are approving is the first step in a more comprehensive approach to simplifying and easing the regulatory burden for community banks.

#

Thomas M. Hoenig is the Vice Chairman of the FDIC and the former President of the Federal Reserve Bank of Kansas City. His material can be found at <https://www.fdic.gov/about/learn/board/hoenig/>

The views expressed are those of Vice Chairman Hoenig and not necessarily those of the FDIC.

¹ Global Capital Index: <https://www.fdic.gov/about/learn/board/hoenig/capitalizationratio4q16.pdf>