

**Congress of the United States**  
**Washington, DC 20515**

May 13, 2014

The Honorable Martin J. Gruenberg  
Chairman  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

The Honorable Janet Yellen  
Chair  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

The Honorable Thomas J. Curry  
Comptroller of the Currency  
400 7<sup>th</sup> Street, SW  
Washington, DC 20219

Dear Chairman Gruenberg, Chair Yellen and Comptroller Curry:

We write today to express concern over the capital treatment of Subchapter S banks in the final Basel III capital rules.

You are well aware that there are approximately 2,200 Subchapter S banks across this nation, most of which are small and mid-sized institutions based in smaller communities. These institutions were not the root cause of the financial crisis but since 2009 have faced regulations designed for the world's largest financial institutions. The Basel III capital rules are another example of additional regulations that seem to be meant for larger institutions, and action must be taken to amend these rules in a manner that appropriately reflects the business model of these small and midsized institutions and their investors.

The final Basel III capital rules prohibit Subchapter S banks and C banks that fall below certain capital levels from distributing dividends to shareholders until those capital levels are attained or restored. The rules fail to recognize, however, that C banks pay taxes before income might be diverted to build capital, while Subchapter S bank shareholders pay all bank taxes regardless of whether a distribution of profits has been made. This means that Subchapter S banks will be required to increase capital ratios at a significantly higher rate than C banks in otherwise identical condition. As a result, the Basel III rules will place Subchapter S banks at a distinct competitive disadvantage in initially meeting new Basel standards, and in the event of any subsequent need to restore capital positions.

The final rule will also significantly affect smaller banks by requiring Subchapter S shareholders to pay taxes on income they have not received in order to increase capital relative to their competitors. These smaller banks rely on local investors for capital formation. Unlike larger banks, they have limited access to the capital markets, and the taxation of Subchapter S shareholders without a limited distribution of income will discourage both initial and subsequent investment essential to support banking in smaller communities. Furthermore, we are concerned that this new rule will ultimately have an impact on the safety and soundness of these institutions. In addition to shouldering the tax burden of a Subchapter S bank, investors will likely be called upon to increase their investments in an effort to enhance a particular institution's capital conservation buffer.

Shareholders of Subchapter S banks should not be penalized for investing in a community institution, yet we fear that will be the case under the aforementioned rule. It is important that Subchapter S banks and C banks are put on more equal footing by allowing Subchapter S banks to make limited distributions to shareholders for the purpose of paying taxes on the institution's earnings, so that any increases in capital required by Basel III rules will be uniform across Subchapter S banks and their competitors.

This Basel III rule disproportionately impacts our nation's smaller financial institutions. Given the stress in the community bank space and new standards as to what does and does not qualify as adequate capital, we believe it is imperative that you carefully reconsider implementation of the Basel III rules as they relate to Subchapter S banks and their shareholders. Thank you for your immediate consideration. We look forward to your response.

Sincerely,



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Blaine Luetkemeyer  
Member of Congress



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James B. Renacci  
Member of Congress



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Lynn Jenkins  
Member of Congress



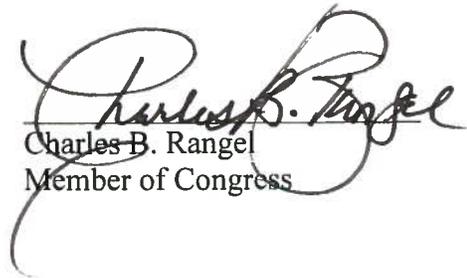
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Emanuel Cleaver  
Member of Congress



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Ron Kind  
Member of Congress



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Charles B. Rangel  
Member of Congress



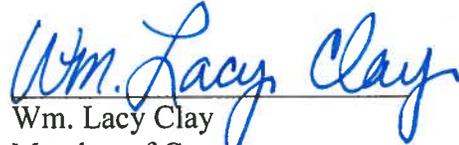
Tom Cotton  
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Gwen Moore  
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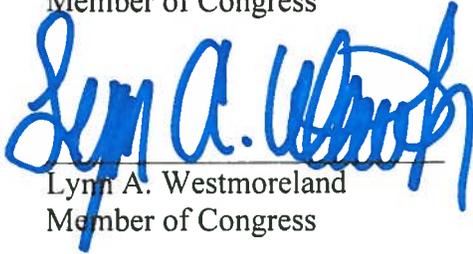
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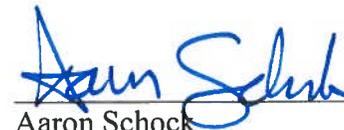
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Bradley S. Schneider  
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Adrian Smith  
Member of Congress



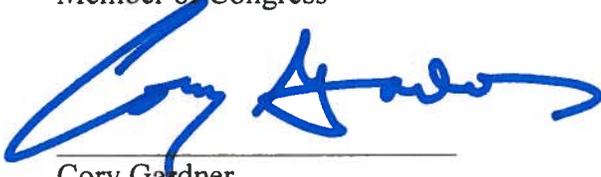
Aaron Schock  
Member of Congress



Tom Reed  
Member of Congress



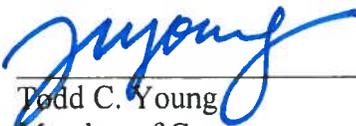
Sean Duffy  
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Cory Gardner  
Member of Congress



Reid Ribble  
Member of Congress



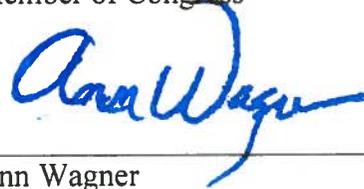
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Mike Coffman  
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Ann Wagner  
Member of Congress



Tom Latham  
Member of Congress



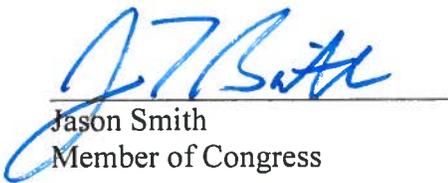
Steve Womack  
Member of Congress



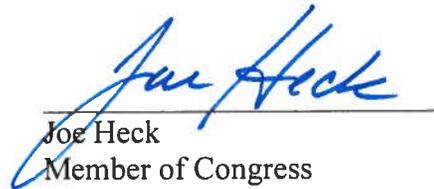
Mark E. Amodei  
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Gregg Harper  
Member of Congress



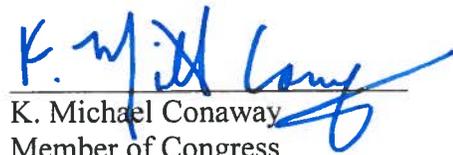
Jason Smith  
Member of Congress



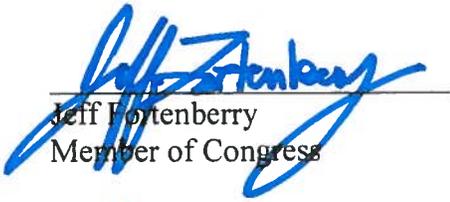
Joe Heck  
Member of Congress



Greg Walden  
Member of Congress



K. Michael Conaway  
Member of Congress



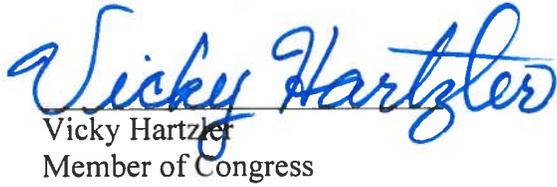
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Jeff Fortenberry  
Member of Congress



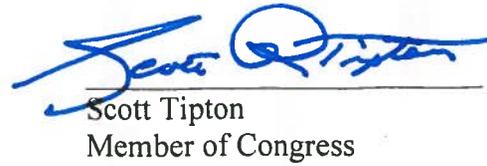
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Rick Crawford  
Member of Congress



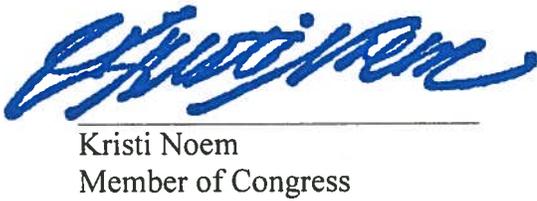
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Vicky Hartzler  
Member of Congress



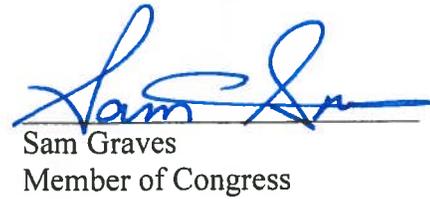
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Scott Tipton  
Member of Congress



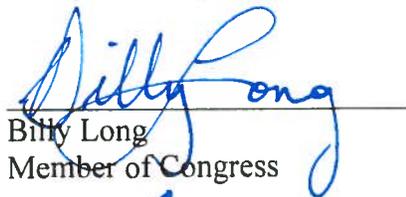
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Kristi Noem  
Member of Congress



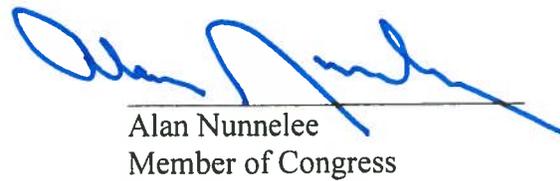
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Sam Graves  
Member of Congress



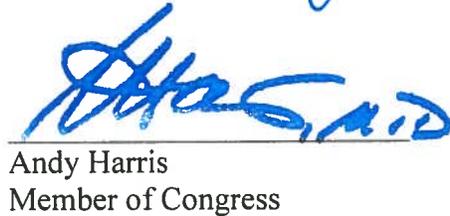
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Billy Long  
Member of Congress



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Alan Nunnelee  
Member of Congress



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Andy Harris  
Member of Congress