



## Mutual Alert

### Agencies Called Upon to Address Unintended Consequences of Volcker Rule to Community Banks: This Mess Will Take More than Turpentine to Clean-Up

In the attached letter by House Financial Services Committee, Chairman Jeb Hensarling and Financial Institutions Subcommittee Chairwoman, Shelley Moore Capito, the two leaders called on the agencies to remedy the unintended consequences of the Volcker Rule to “Main Street” financial institutions. A recent FAQ issued by the agencies triggered almost a \$400 million write down by Zions Bancorporation. The FAQ confirmed that CDOs backed by trust preferred securities would be prohibited investments and therefore be required to be sold by 2015. That, in turn, caused a number of accounting firms to conclude that the securities could no longer be held to maturity and therefore were required to be accounted for as “held for sale” and marked to value at this year-end. Given the anticipated fire sale environment, it is feared that write downs will be even more significant than normal market conditions would imply.

Neither the Congress or the agencies have given any indication that the new rule and law would produce this result. Indeed, the rule clearly stated that it was not intended to apply to banks under \$10 Billion in assets. The preamble to the final rule never once in over several hundred pages even mentions TRUPs. CDOs are mentioned in a few vague references. The situation is a classic instance of government painting with too broad a brush with little care or ability to assure even itself that it doesn't make a mess. While a joint agency meeting is planned this week there is no assurance that the outcome will completely reverse the situation to the status quo ante. Because any reversal of the interpretation will require several agencies to act jointly it will take more than turpentine to clean up this mess in a hurry.

We have contacted the Hill and the agencies to express our concern that yet again the mutual bank is injured even more grievously in as much as it cannot replace the lost capital but through retained earnings. We join the other trade groups in asking Congress and the agencies to walk the walk not just talk the talk.

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