

D.C. OUTLOOK: Mutuals and Basel III

Getting a word in on capital issues for mutuals

Making sure 8.5% of industry doesn't get forgotten in Basel III by pressing both the special issues for mutuals, as well as the issues they share with other community and midsized institutions.

This article is an online companion to the January 2013 ABA Banking Journal cover story, "The Road Ahead." To read that article and other online articles in the report, please [click here](#).

By Steve Cocheo, executive editor & digital content manager

About 1 in 12 of the nation's depository institutions are mutual savings institutions or mutual holding companies, yet without someone making the case for the special issues they face as mutuals, Washington has a tendency to misunderstand or forget.

Sometimes mutuals' issues are really those of all community banks, and others more specifically reflect their unique ownership approach and structure.

Capital represents a central concern where mutuals' capabilities and issues stand out. The TARP program, for instance, never did devise means for mutuals to participate.

ABA sets mutual bank

conference for April
14-15

ABA will hold its annual mutual bank conference in conjunction with the 2013 ABA Government Relations Summit in Washington, D.C., April 14-15. Both a general session and breakouts are planned.

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"They could never figure out a way for TARP not to be a subordinated instrument for mutual banks," says Bob Davis, ABA executive vice-president for mortgage markets, financial management & public policy. "You could have used TARP for tier 2 capital--but no one needed tier 2 capital."

"For the typical community bank, the principle source of capital is retained earnings," says Davis. "But for the mutual bank, retained earnings is their only source of capital. So they have less capability to adjust with flexibility to changes in capital needs and requirements."

Throughout the Basel III comment process, ABA has been bringing up the special issues that concern mutuals regarding capital. The main comment letter of over 800 pages that ABA filed in conjunction with the Financial Services Roundtable contains multiple references to mutuals' issues, and ABA filed a separate letter of its own specifically on the Basel III proposals' impact on mutuals.

"That was done to increase awareness," says Davis, whose responsibilities include issues for mutual banks. "With mutuals, you can't just say, 'Here's the new capital level, go out and raise some'. You can't raise capital at a mutual that way, you have to grow into it. So when you change the standards you have to allow a unique time frame, because they adjust their capital levels only along this track."

One of ABA's comments in its own letter about mutuals puts the challenge of Basel III into focus: "There is no doubt that mutual institutions were not contemplated by the proposed rules. ... There is no capital market for a mutual institution."