

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

October 21, 2014

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

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

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

Dear Chairman Gruenberg, Chair Yellen and Comptroller Curry:

We write to express continued concern over the capital and tax treatment of Subchapter S banks. While we appreciate the steps taken to address the initial reservations expressed by some Members of Congress in May, it is important that additional steps are taken in order to better level the playing field between Subchapter S banks and Subchapter C banks, particularly in regard to the Basel III capital conservation buffer rules.

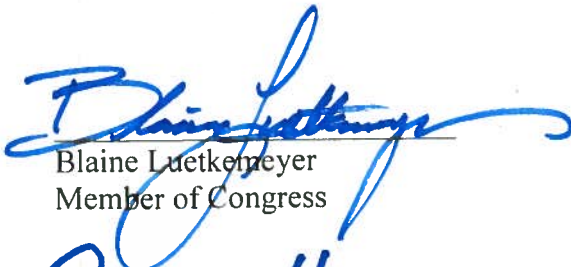
Many of the more than 2,000 Subchapter S banks across the United States are small institutions serving small communities. There seems to be constant and unanimous recognition from regulators and Members of Congress that these institutions were not in any way the cause of the 2008 financial crisis. Those sentiments have been echoed by the Basel III Committee. Nevertheless, small and mid-size financial institutions continue to face regulations created for the world's largest financial institutions, and Subchapter S banks remain at a competitive disadvantage to their Subchapter C counterparts.

As you know, 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 investment essential to support banking in smaller communities. 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. Furthermore, we remain concerned that this rule will be detrimental to the safety and soundness of these institutions.

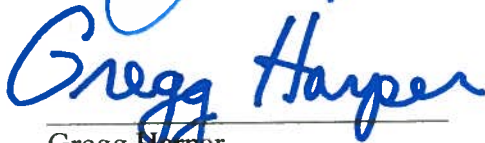
The steps taken by your agencies are appreciated and we share the belief that strong capital levels are essential to a sound banking system. At the same time, we are concerned that the final solution does not do enough to level the playing field for certain Subchapter S institutions. Under your rule, Subchapter S banks are still held to a different and much higher standard than Subchapter C banks, which are permitted to pay income taxes before certain dividend restrictions go into effect. Subchapter S banks should also be permitted to fulfill tax obligations before dividend restrictions take effect.

Any change to the Basel III capital rules should be uniform across Subchapter S banks and their competitors. Given the continued stress seen throughout community banking, we hope you will agree that more must be done on this issue. Thank you in advance for your consideration. We look forward to your response.

Sincerely,



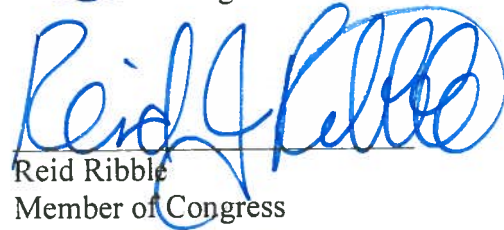
Blaine Luetkemeyer  
Member of Congress



Gregg Harper  
Member of Congress



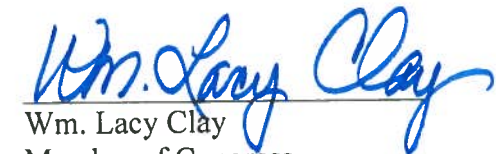
James B. Renacci  
Member of Congress



Reid Ribble  
Member of Congress



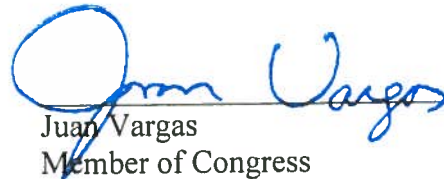
Erik Paulsen  
Member of Congress



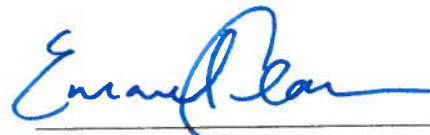
Wm. Lacy Clay  
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Ron Kind  
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Juan Vargas  
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Emanuel Cleaver  
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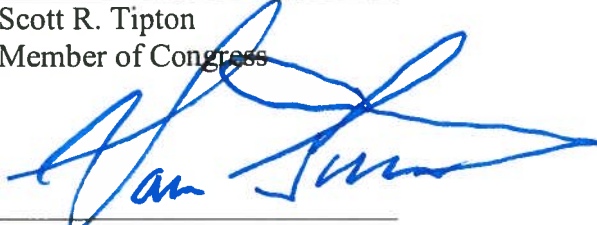
Bradley S. Schneider  
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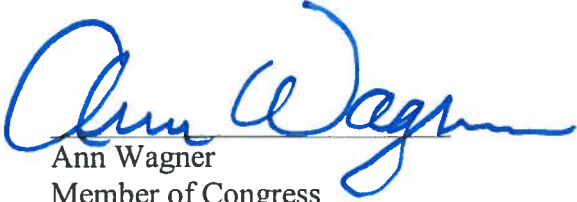
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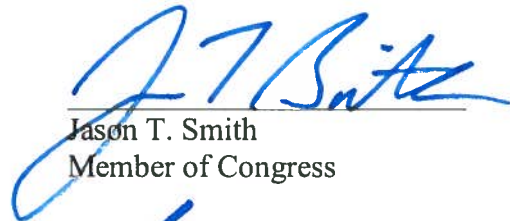
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Sean P. Duffy  
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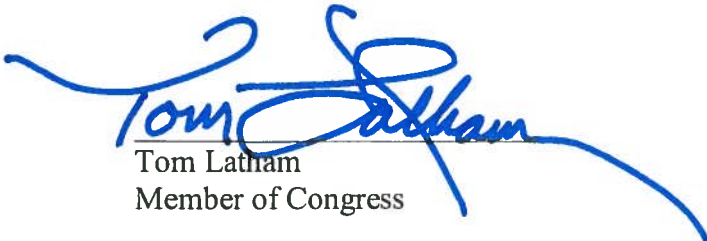
Jason T. Smith  
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Andy Harris  
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Tom Latham  
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David Loebsock  
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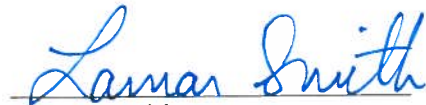
Todd Young  
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Lynn Westmoreland  
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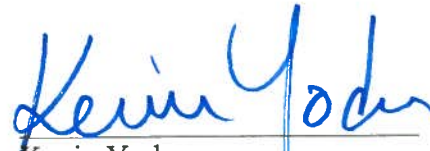
  
Lamar Smith  
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Steve Womack  
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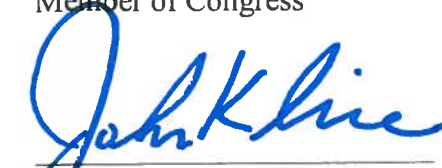
  
Marlin Stutzman  
Member of Congress

  
David Scott  
Member of Congress

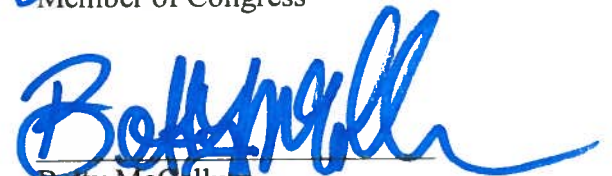
  
Marsha Blackburn  
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Lynn Jenkins  
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Mike Pompeo  
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John Kline  
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Kristi Noem  
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Betty McCollum  
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*Adrian Smith*

Adrian Smith  
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