AD95 9-27-08

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August 14, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Re: Basel III Capital Proposals

Ladies and Gentlemen:

We have reviewed most of the pages concerning Basel III. In the event of interest rates increasing, a 250 basis points increase in rates would affect our capital negatively by 13%. It seems unfair that securities, when held to maturity will not have any negative earnings impact, so why would securities be risk rated with the above facts.

In addition the risk rated loans in added categories that will be reported will cause more paperwork and more time spent when that time could be better spent trying to increase loans. With the 1-4 family being risk rated higher, which has a negative impact on capital and also decreases the amount of lending banks can do.

In respect to the commercial loans that would increase to 150 basis points, risk rating banks will already increase the allowance for loan and lease losses to compensate for any future losses. So if banks have to risk rate at 150% it seems like we are being double charged, therefore again decreasing capital and limiting the amount of new loans.

Sincerely,

Gary E. Yager
President
VisionBank

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95-96-97-216

October 11, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
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Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. Let me start by saying I have 4 children and when one misbehaves I don't punish the other 3. I don't understand why Basel III Capital Proposals are being applied to community banks. We are the lifeblood of small town small business and consumers. Our bank continues to do residential mortgages even though they are borderline profitable. The paperwork is overbearing for both the consumer and the bank. If Basel III is fully implemented on community banks and we have to hold back more capital for residential mortgages that will move the loans to the unprofitable category and we will make fewer if any in the future.

Community banks did not create mortgage mess this country is in and as a vast majority these banks are already well capitalized and in dire need of less regulation not more. We do not have the staff the large banks do or the resources to "spread" the cost of further regulation out over our asset base. I made my first mortgage loan in 1983 and had a one page note, 2 sided mortgage and right of rescission. All that the borrower wanted to know was the rate, payment amount and when the payment was due. I refinanced my home in July and walked away with 62 pages of paper and all I wanted to know were the same 3 questions as my borrower in 1983. What the "bleep" is happening to this industry...enough is enough!! Please reconsider applying Basel III to this country's lifeblood.

Sincerely yours,

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[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

Todd Langenfeld
President
Farmers Trust & Savings Bank
Earling, Iowa

AD95-9 ... -2012

FB&T

FIRST BANK & TRUST COMPANY

October 15, 2012

Federal Deposit Insurance Corporation
Attention: Comments/Legal ESS
550 17th Street, N.W.
Washington, DC 20429

Re: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Ladies and Gentlemen:

I appreciate the opportunity to comment on the Basel III proposals as approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

As president of a $140 million bank located in north central Oklahoma, I'm deeply concerned about the impact of the proposed Basel III Capital Standards. We are a bank truly owned by our community. Founded in 1934, we have approximately 160 shareholders who own small pieces of our financial institution. Our mission includes maximizing shareholder value while safeguarding our depositors' funds. We accomplish this by providing a broad range of quality financial services to small businesses, farmers and consumers in the three rural communities we serve. We concentrate primarily on agricultural and real estate lending. Our Tier 1 capital as shown on the June 30, 2012 call report is 11.42%, placing us in the upper 82% of our national peer group. We certainly understand and agree with the importance of capital as an important buffer in tough times and a way to assure our investors and customers of the safety of their community financial institution.

However, the proposed Basel III standards place many unfair and unnecessary burdens on small banks such as ours. Any capital plan that provides a single rule for banks of all sizes and types is poorly drafted and will create unnecessary harm and complexity to community banks in exchange for little or no benefit to consumers and the general public. We are the lifeblood of small businesses and finance the vast majority of them, creating jobs and vitality for our communities and customers. This rule will hamper our ability to serve them most effectively.

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In our market area, loan demand has been diminished due to an influx of cash from oil and gas leasing activity. At the same time, deposits continue to increase because of the lease bonuses and production payments. That combination of rising deposits and decreasing loans has produced an increased concentration on our balance sheet of investment securities. Our investment portfolio of $65 million exceeds our loan portfolio of $57 million. We restrict investments to very strong bank quality assets that we intend to hold to maturity. The vast majority are fully backed agency securities with little, if any, risk of financial loss. We understand that such investments carry interest rate risk, and we very carefully manage that. Unrealized losses become realized only if we choose to liquidate these prior to their maturity. Our history over many years shows that we do hold these securities to maturity and manage our needs for liquidity in other ways. In addition, the proposal to include unrecognized gains and losses in our capital computation will impact us more severely than large banks and most community banks due to the size of our investment portfolio in relation to our total assets. Even though this bank has never lost a penny on an investment, our capital will fluctuate based upon the current interest rate environment and economic cycle, inserting unneeded volatility into our capital and the capital of many community banks. The primary purpose of capital has long been to serve as a shock absorber in bad economic times. This proposal will create additional volatility and will amplify the impact of economic and interest rate cycles unnecessarily.

The proposed rule is much too punitive to those of us who have continued to finance housing and real estate in our communities. Many of our peers in rural markets have withdrawn from offering these products already, due to the complexity and nearly constant revision of required disclosures and the relatively recent onerous escrow requirements. This has drastically reduced the availability of mortgage alternatives for consumers living in rural areas. The proposed Basel III standards require exceedingly complex and time consuming capital computations for mortgages based upon loan to value ratios and mortgage categories. Each quarter will require reassessment of our 460 existing residential mortgages to determine the appropriate category and loan to value ratio. The time required to track and report these items quarterly is burdensome and will decrease the resources that could be devoted to enhancing customer service and providing new products that actually help our communities. I sincerely believe that this rule, if implemented as presently proposed, will cause significant shrinkage in the availability of mortgage credit in rural markets.

Existing capital rules do not alter the risk weighting of loans when the loan becomes delinquent. Rather banks classify the loans and address the risk through specific or historical allocations in the Reserve for Loan Losses. The proposed rule would change this approach, requiring that non-residential loans over 90 days receive a risk-weight of 150%. This effectively could result in a troubled asset impacting capital in multiple ways. If a provision for loan losses is made to increase the reserve account for the troubled asset, it will directly reduce earnings, decreasing capital in an equal amount. This proposal would assign a risk weight of 150% to the asset that is already fully reserved, impacting capital again for an asset that has been fully covered in the reserve for loan loss calculation. This unintended consequence could encourage a bank to prematurely charge off the loan to eliminate the capital requirement, thereby accelerating foreclosure actions on commercial property.

In order to comply with the requirements outlined above, we will need to collect and report new information to accurately calculate capital requirements on each quarterly call report. Internal reporting systems will need to be redesigned, and employees will have to be trained on the new systems. In a small bank such as ours, the persons responsible for preparing this information are the same ones trying to digest the thousands of pages of Dodd-Frank and implementing regulations. It is very likely we will need to hire additional personnel to comply with all of the new paperwork requirements. These costs will not result in any greater customer service, any new product offerings or any additional community outreach initiatives.

I sincerely request that you weigh the negative impact of the proposed regulations on community banks and evaluate if there are any significant, tangible benefits to consumers, regulators or the general public. It seems clear to me that there are very few positive results; rather the proposals will increase capital volatility and amplify economic cycle impacts rather than providing the very support that capital was intended to provide.

Community bankers love helping customers and find satisfaction seeing their communities prosper and grow. Strong, stable capital is an extremely important component in our ability to continue on that mission. We support capital rules that enhance customer confidence in the industry and serve as a buffer against economic and interest rate cycles.

Sincerely,

Gwen H. Easter
President and CEO

GHE/jb

Cc: Senator James M. Inhofe
Senator Tom Coburn
Representative Frank Lucas
Mr. Wayne Abernathy, American Bankers Association
Mr. Roger Beverage, Oklahoma Bankers Association

A0909 · 218

Bank of Dooly
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October 18, 2012

Mr. Robert E. Feldman, Executive Secretary
ATTN: Comments / Legal ESS
Federal Deposit Insurance Corporation
550 /17th Street NW
Washington, D.C> 20429

Re: Basel III Proposed Rules
FDIC Standardized Approach / RIN 3064-AD96

Dear Mr. Feldman:

We are a small bank of about 103 million dollars in a rural Georgia market with a lot of lower income customers. Since opening in 1976, Bank of Dooly has tried to serve all segments of our community, often helping folks who don't qualify elsewhere based on the credit standards of much larger regional and national banks. With today's compliance and regulatory burdens, however, it is increasingly challenging to assist such customers.

This is particularly applicable in the housing market. We've financed numerous homes for under $50,000, helping our customers become homeowners rather than home renters. The regulatory paperwork burden has become so enormous over the past two years that we are already questioning whether to continue making these type loans. If we add to that the additional capital requirements of Basel III, our bank will have little incentive to remain in this market. These are in-house loans that don't qualify for the secondary market, loans that we keep on our books for up to 20 years, loans that provide home ownership opportunities for moderate and low income customers.

We have a simple banking operation with no complex investments. Perhaps there is some justification for Basel III for huge banking organizations. For a little country bank that focuses on a local market, however, it's just another stumbling block that requires time and resources to comply, and offers no tangible benefits to regulators, the bank, or our customers.

I would respectfully suggest that Basel III not be implemented for banks or at least exempt small community banks.

Sincerely,

Neil Joiner

Neil Joiner
President

A0963-92-71-96

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October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
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Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
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Mail Stop 2-3
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Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

I am the President and owner, along with my sisters and Mother, of Cambridge State Bank. We are one of a handful of banks certified by the United States Department of the Treasury's program as women owned and led. We have assets of approximately $70 million and operate two branches in Cambridge, Minnesota, one on Main Street and the other east of town in the "big box retail" commercial area. We will celebrate the 100th anniversary of our bank charter in 2014.

There are many items which trouble me about the proposed regulations, but I will focus on just a few of those:

1. This is another example of a regulatory environment in which small banks are being hammered by the same regulations that were written to curb the behavior of the bad acting mega-sized US and international banks that continue to prove that they do not have the ability to self-regulate and are a risk to the world's economic health. Certainly, little banks like ours do not pose anything near the same level of systematic risk, yet we are required to abide by the same rules.

2. As with every other well-intentioned, but burdensome regulation on the books, there will be additional paperwork and accounting burden placed on us. We are a

small business with just 17 employees and we barely have the resources to keep up with the regulations currently on the book. Already one of our 17 employees spends nearly 4 months, full time, per quarter completing the 71 page Call Report.

3. Mortgage balloon payments are used by us to mitigate risk, not increase it. A mortgage balloon gives us the opportunity to have a full discussion with our borrower about their current underwriting characteristics. This allows us to stay better informed about our customers. Further, balloons allow us to reprice for the current rate environment.

4. The loan loss reserve is designed to reflect the risks in the bank's loan portfolio, and acts as a direct reduction to capital. Using high risk weights for performing mortgages and non-performing loans is duplicative.

5. I see no rationale for capping the allowance for loan loss at 1.25%. Certainly, the loan loss reserve is the first line of defense against capital-absorbing losses.

6. I understand that the FDIC stands ready to pay off depositors should a little bank like ours go down, but I feel that the whole notion that the owners stand to lose their entire bank investment gets lost in the weeds. The owners' capital is the second line of defense against capital-absorbing losses (after LLLR, as stated above), and as owners, we certainly are focused on running our banks to not only make money, but to preserve capital.

7. The community bank model is worth preserving because it delivers growth capital directly to community businesses and individuals, and the US economy would be worse without it.

Sincerely,

Kim

Kim Erickson
President
Cambridge State Bank
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763 691 8014

CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

DAVID T. HIRSCHMANN
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October 22, 2012

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve
20th Street & Constitution Avenue, NW
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Re: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions and Prompt Corrective Action; Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; Advanced Approaches Risk-based Capital Rule. 12 CFR Parts 3,5,6,165, 167, Docket ID Nos.OCC 2012-0008, OCC 2012-0009, OCC 2012-0010, RIN 1557-AD46, 12 CFR Parts 208, 217 and 225, Regulations H, Q and Y, 12 CFR Parts 324 and 325, RIN 3064-AD95, RIN 3064-AD96, RIN 3064-AD97

Dear Ms. Johnson, Mr. Feldman and To Whom It May Concern:

The U.S. Chamber of Commerce ("the Chamber"), the world's largest business federation represents the interest of more than three million businesses and organizations of every size, sector, and region. The Chamber believes that appropriate capital requirements are necessary to avoid over-leveraging; however, capital standards that are too arduous can have serious, unintended negative consequences. Allowing suitable levels of risk-taking is a necessary element needed to fuel growth and innovation within the overall economy.

While the Chamber appreciates the extension of time to consider this proposal, we believe the Office of the Comptroller of the Currency ("OCC"), Board of Governors of the Federal Reserve System ("Federal Reserve"), and Federal Deposit Insurance Corporation ("FDIC") (also collectively as "the regulators") in releasing the three notices of proposed rulemaking to implement the Basel III capital agreements ("Basel III NPRs") has failed to take into account critical aspects of how capital is used and, in some cases, has not paid sufficient attention to procedural detail.

Specifically, the Chamber's concerns are centered upon:

- **Failure to consider impacts on Main Street businesses and the economy;**
- **Enhanced cost-benefit and economic analysis needed before Basel III NPR's can be finalized;**
- **Resolution of conflicts with other legislative and regulatory initiatives;**
- **Impact of GSIFI surcharges placing U.S. firms at a competitive disadvantage;**
- **Uniform international application;**
- **Resolution of issues impacting Real Estate Investment Trusts that may depress the commercial real estate market; and**
- **Resolution of issues related to Trade Finance.**

Our comments and concerns are discussed in greater detail below.

Discussion

In November 2008, the Chamber released principles for regulatory reform that included a section on capital and liquidity standards, which states:

> [e]xtreme leverage is an issue that demands regulatory focus, given repercussions during periods of stress in our financial markets. Capital and liquidity requirements will need to be established for *all* significant financial institutions that can have an impact on the stability of our capital and financial markets. These requirements should encourage

meaningful prudence taking into account the firm's risk profile, while permitting critically necessary innovation and thoughtful risk-taking.

Accordingly, the Chamber believes that appropriate capital and liquidity requirements are the preferred means of preventing over-leverage and potential excesses in the financial services sector. In fact, the Chamber has consistently proposed capital requirements as a pro-growth alternative to the Volcker Rule. We appreciate the work the regulators have undertaken in establishing capital and liquidity requirements in the Basel III NPRs and in other initiatives including the yet to be completed application of capital and liquidity provisions of the Dodd-Frank Wall Street Reform and Consumer Protection ("Dodd-Frank Act"). The Chamber is concerned that the regulators, in proposing the Basel III NPRs, have not considered the implications of this rulemaking upon the non-financial business community and the broader economy. This is particularly concerning as capital and liquidity requirements that are *too high* are as dangerous as capital and liquidity requirements that are *too low*.

1. Failure to Consider Impacts on Main Street Businesses and the Economy

The regulators in proposing, finalizing, and implementing the Basel III NPRs must take into account the impact the rulemaking will have upon liquidity and capital formation for non-financial businesses. Financial institutions provide capital to businesses and serve as a conduit to match investors and lenders with entities that need funding. Banks, in particular, provide credit and lending that businesses use to expand and create jobs.

Therefore, how the Basel III NPRs impact the ability of financial institutions to lend and extend credit will have a direct bearing upon the ability of non-financial businesses to access the resources needed to operate and expand. In studying the Basel III NPRs, it would seem that the OCC, Federal Reserve, and FDIC are not taking these non-financial business and economic impacts into account.

A contemplation of these issues is critical to insure that financial institutions are acting as the conduit needed to prime the pump of economic growth. Lax capital standards can lead to inefficient allocations of capital that may result in a financial crisis. Overly prescriptive rules and restrictive capital standards can dry up credit and lead to a similar inefficient allocation of capital, harming business and economic growth. This is particularly true with the fragile economic and job growth market that we currently have.

Similarly, stakeholders anticipated the regulators creating rules and systems for large banks, but not for smaller institutions. Such extension is significant as the Basel III NPR's will now have a large impact upon the credit and lending to Main Street businesses. It should be understood that large companies can access capital from many sources, including the vast debt and equity markets. Small businesses are more beholden to bank lending and credit. Applying the Basel III NPRs on smaller institutions will mean that Main Street businesses will face a disproportionate impact upon their ability to engage in capital formation.

Similarly standardized risk weights that punitively impact commercial lines of credit will have harmful consequences to the business community and their ability to operate in a way that is conducive to growth.

As will be discussed below, the failure to consider these effects on non-financial businesses, particularly small businesses, requires further analysis and public commentary before the Basel III NPRs can be finalized.

2. **Enhanced Cost Benefit and Economic Analysis Needed Before Basel III NPR's can be Finalized**

a. **Compliance with Executive Orders 13563 and 13579 on Regulatory Reform**

While the Basel III NPRs must follow the requirements of the Administrative Procedures Act ("APA"), the Federal Reserve, FDIC and OCC each have differing legal standards and internal practices for economic analysis when promulgating a rule.

As an Agency of the Treasury Department, the OCC is the one agency involved in the joint Basel III NPR's that is not an independent agency. While the next section of the letter will deal with the "economically significant" standard, the

OCC must promulgate rules consistent with the Office of Information and Regulatory Affairs ("OIRA") process and Executive Order 13563.

The Federal Reserve is an independent Agency, but it has avowed that it will seek to abide by Executive Order 13563. Consistent with this approach, the Federal Reserve recently stated that it "continues to believe that [its] regulatory efforts should be designed to minimize regulatory burden consistent with the effective implementation of [its] statutory responsibilities."[1]

Therefore, the standards and considerations of costs and benefits and economic impacts vary across the agencies involved in the Basel III NPRs. Given this haphazard and uncoordinated analysis under existing practices, the Chamber recommends that all of the agencies involved in the Basel III NPRs establish a common baseline for cost-benefit and economic analysis by using the blueprint established by Executive Orders 13563 and 13579, in addition to other requirements they must follow.[2] Doing so would allow meaningful, cumulative analysis that would result in a more coherent final rule with fewer harmful, unintended consequences for the American economy.

Executive Order 13563 places upon agencies the requirement, when promulgating rules to:

1) Propose or adopt a regulation only upon a reasoned determination that its benefits justify its costs (recognizing that some benefits and costs are difficult to justify);

2) Tailor regulations to impose the least burden on society, consistent with obtaining regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations;

3) Select, in choosing among alternative regulatory approaches, those approaches that maximize net benefits (including potential economic, environmental, public health and safety and other advantages; distributive impacts; and equity);

[1] November 8, 2011, letter from Chairman Ben Bernanke to OIRA Administrator Cass Sunstein.
[2] Executive Order 13579 requests that independent agencies follow the requirements of Executive Order 13563.

4) To the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt; and

5) Identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior, such as user fees or marketable permits, or providing information upon which choices can be made to the public.[3]

Additionally, Executive Order 13563 states that "[i]n applying these principles, each agency is directed to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible."

Conducting the rulemaking and its economic analysis under this unifying set of principles will facilitate a better understanding of the rulemaking and its impact and give stakeholders a better opportunity to provide regulators with informed comments and information.

b. Failure to Provide a Cost-benefit Analysis as Required Under the Unfunded Mandates Act

As stated earlier, the OCC is the only agency involved in the rulemaking that is not an independent agency. As such, the OCC must determine pursuant to the Unfunded Mandates Reform Act (UMRA) if the rulemaking will cost state, local or tribal governments or the ***private sector*** more than $100 million. If it does, the OCC must submit the rulemaking for an enhanced review and provide estimates of future compliance costs, impacts upon the economy—including data on productivity, jobs and international competitiveness.[4]

The OCC has stated that the Basel III NPR is not an economically significant rulemaking. We have no doubt that the OCC's Basel III NPR will have costs of more than $100 million and that it is an economically significant rulemaking requiring enhanced review. Either lending to businesses will be reduced, possibly by billions of dollars as a result of the Basel III NPRs, or the costs of bank lending will increase the

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[3] Executive Order 13563
[4] See 2 USC 1501, et. seq.

costs for non-financial businesses. Similarly, the Basel III NPRs will place increased regulatory burdens and costs upon non-financial businesses that own financial institutions.

Accordingly, the Chamber believes that an UMRA enhanced cost benefit analysis must be undertaken and put out for comment before the Basel III NPRs are finalized.

c. Information Collection and OIRA Review

The Basel III NPRs exclude any information regarding the burdens that affected institutions face in terms of information collection process to comply with the proposals. Clearly, information gathering and collection is necessary to implement and enforce the Basel III NPRs and such a collection process by definition creates costs and burdens. Yet estimates are not provided for commentators to assess. Accordingly, the Chamber believes that the Basel III NPRs should undergo an OIRA information collection review and for that data to be released and subject to public comment. Failure to do so inhibits the ability of stakeholders to understand the proposal and provide the regulators with informed commentary that can improve the Basel III NPRs.

3. Resolution of Conflicts with other Legislative and Regulatory Requirements

a. Study of the Comprehensive Impacts and Interaction of Basel III NPR's with Other Regulatory and Legislative Initiatives

The Basel III NPRs are not being drafted or considered in a vacuum. They are being developed during a period when the Dodd-Frank Act is being implemented and other regulatory changes are taking place with profound impacts upon the ability of businesses to raise capital. As an example, the one place where many of these issues conjoin is within corporate treasury function of a business. From that vantage point, the Basel III NPRs will impact lending and commercial lines of credit for a business; the Volcker Rule will affect a treasurer's ability to raise capital in the debt and equity markets; and derivatives regulations will have a bearing upon their ability to mitigate risk, while the much discussed money market fund initiatives will harm the commercial paper market and impede the capabilities of treasurers to engage in sound, cash management. Therefore, the development of international capital standards and the cumulative impacts of these developments must be viewed and understood on a broad, holistic basis.

b. Derivatives End-User Exception

The Chamber has strong concerns that the Basel III NPR[5] may harm end user companies that rely on over the counter ("OTC") derivatives to prudently managing their business risks.

In drafting Title VII of the Dodd-Frank Act, Congress acknowledged the important role derivatives play in mitigating end-users' commercial risks and the corresponding benefit the economy derives from such activity. To ensure OTC hedging remained efficient for end users, Congress crafted an end-user exception from the clearing and trading requirements of Title VII. Further, policy makers have repeatedly emphasized the importance of implementing a derivatives regulatory regime that promotes, rather than discourages, risk management activity by end-users.

The Basel III NPR would significantly undermine Title VII's end-user exception because dealers would be required to hold significantly increased amounts of capital against all uncleared swaps, making uncleared swaps transactions more expensive and driving up the cost of hedging. The Chamber urges the regulators to amend the Basel III NPR to ensure it does not conflict with the end-user exception and the unambiguous intent behind it by making clear that the new CVA capital requirements do not apply to transactions executed with end users when those end users are hedging commercial risk.

c. The Volcker Rule

The Chamber appreciates the intent of the regulators' inclusion of a discussion in the Basel III NPRs regarding the impact that the Volcker Rule may have upon the capital held by covered institutions. However, it is not possible to give any informed

[5] Specifically, "Advanced Approaches Risk-Based Capital Rule; Market Risk Capital Rule"

commentary on those provisions because the implementing regulations for the Volcker Rule have not been completed. Accordingly, we would request that this portion of the Basel III NPRs be reopened for comment upon the completion of the Volcker Rule. The Chamber also believes that such a re-opening of the Basel III NPRs should also include a broader reconsideration of the inter-play between the Volcker Rule and the Basel III NPRs, primarily taking into account the fact that American institutions are subject to the Volcker Rule and the resulting capital adjustments, while their international competitors are not covered by the Volcker Rule or subject to the capital adjustments resulting from its operation.

d. Calculation of Risk Weight Averages and Definition of Securitization

The Chamber is concerned that the calculation and proposed use of risk weight averages may either have distortive impacts upon similarly situated firms. This may create conditions conducive for arbitrage and a lack of certainty that will make the capital markets less able to assess risk and efficiently deploy resources. For example, the Chamber is extremely concerned that standardized risk weights that punitively impact commercial lines of credit will have harmful consequences to the business community. Additionally, definitions and treatment of securitization may conflict with the Dodd-Frank Act. This failure to coordinate yet to be finished regulations may harm those markets and impose additional costs on businesses through due diligence requirements that may be unrealistic. These adverse consequences for securitizations may further damage those markets that are critical to business lending and have yet to recover from the 2008 financial crisis.

4. Impact of GSIFI's Surcharges Placing U.S. Firms at a Competitive Disadvantage

The Chamber has strong concerns over the possible imposition of capital surcharges upon Global Systemically Important Financial Institutions ("GSIFIs"). We believe that appropriate capital requirements are necessary to avoid over-leveraging and allowing suitable levels of risk-taking needed to fuel growth and innovation within the overall economy. However, capital surcharges upon GSIFIs come in addition to the Volcker Rule, other Dodd-Frank Act provisions including derivatives regulation, resolution authority and systemic risk regulation, as well as other capital requirements could disrupt that balance placing American financial institutions at a competitive disadvantage. Such a competitive disadvantage may result in raising the cost of capital for *all* businesses and creating a drag on economic growth.

Therefore, the Dodd-Frank Act places both higher capital standards ***and*** the Volcker Rule ban on proprietary trading upon American financial services firms.

American GSIFIs will face an array of regulatory tools and procedures to prevent inappropriate risk taking that their global competitors may not, while not being able to engage in activities that other global firms may.

In such an atmosphere, the imposition of a GSIFI capital surcharge on American financial institutions may place them at a further economic disadvantage, create a drag on our financial services sector, and raise the costs of capital for businesses. These unintended consequences could have ramifications throughout the rest of the economy. An underperforming financial sector will make it more difficult for businesses to raise capital in an increasingly competitive global economy, adversely affecting economic growth and job creation. We believe that the impacts of a GSIFIs capital surcharge, upon the financial system and economy, should be studied before any proposals are implemented.

5. Uniform International Application

Recent reports have suggested that the European Union is contemplating delaying the implementation of Basel III because of the continuing pressures of the Sovereign Debt Crisis. The Chamber understands that a financial crisis may not be the best time to implement a new system of regulations. Nevertheless, as Basel III has been developed as a uniform international system it should apply to all simultaneously, and any delay for one segment of the global financial system should then delay the implementation of the system for all participants.

Similarly, uniform capital rules are only homogeneous if their interpretation, application and enforcement are the same across the board. As an example, differences among national regulators as to the quality of capital that must be held to satisfy Basel III requirements will in fact mean that there is no global uniform set of capital rules. Mechanisms are needed so the interpretation and application of the Basel III rules are the same and followed across the board. Failure to do so will create regulatory capital arbitrage and gaps in the overall financial regulatory architecture.

6. Resolution of Issues Impacting Real Estate Investment Trusts that may Depress the Commercial Real Estate Market

Real Estate Investment Trusts ("REITS") are an important part of the commercial real estate market that is critical for businesses to have a place to operate. Regulatory initiatives that may restrict the operations or capital flows for REITS can drive up costs or have more harmful consequences for businesses. As mentioned earlier, punitive definitions of securitizations and applications of risk weights have a disproportionate impact upon REITS, and therefore on the commercial real estate markets that are a key part of the infrastructure needed for the business community to operate. These issues need to be resolved to prevent possible dislocations to the commercial real estate markets and the collateral adverse impacts that will be felt throughout the business community.

7. Resolution of Issues Related to Trade Finance

As currently drafted, the Basel III NPRs may seriously reduce the availability of trade finance and will significantly increase the cost of these crucial products. Specifically, implementation of a supplementary leverage ratio will have a disproportionately large impact on off-balance sheet trade finance positions, and the proposed calculation of the Asset Value Correlation (AVC) can increase the cost of trade finance to the end user. The application of both these proposals is disproportionate to the low risk nature of trade finance instruments. Additionally, greater clarity is needed on the waiver of the one-year maturity floor for trade finance instruments to ensure all short-term, self-liquidating trade finance products are able to use actual tenor in their capital calculation relative to maturity.

Further, small and medium-size enterprises (SMEs) have a crucial role to play in driving economic recovery, and they rely heavily on trade finance. Unfortunately, the U.S. capital proposals have the potential to harm these important firms the most.

Conclusion

The Chamber believes that a balanced approach to capital and liquidity requirements are a pro-growth means of addressing over-leveraging and providing stability in a risk based free enterprise system. The concerns expressed in this letter are primarily centered upon a lack of information that prevents informed commentary and a failure by the regulators to contemplate capital requirements in the sense of the broader macro impacts upon business lending and the economic growth and job creation that results from such activity.

The Chamber believes that a deeper understanding of those issues by regulators, including a universal application, implementation and enforcement of Basel III standards, by all signatories, is integral for these international standards to be effective. The Chamber believes that the regulators also need to address issues related to the broader application of the Basel III standards and how they will impact Main Street business lending. The inclusion of many smaller banks, not originally contemplated by market participants, in the Basel III NPRs may have negative impacts upon Main Street businesses and their growth potentialities. Accordingly, these issues should be addressed before any of the Basel III NPRs are finalized.

Also, increased rigor in the consideration of the Basel III NPRs through an enhanced cost-benefit analysis and compliance with Executive Orders 13563 and 13579 will allow the regulators the ability to consider the current gaps of the Basel III NPRs including the failure to consider impacts upon lending to nonfinancial businesses and the broader economic impacts of the proposals. Finally, an overall study of the comprehensive impacts of the Basel III NPR's and their interaction with other regulatory and legislative initiatives, such as the Dodd-Frank Act, is needed for all stakeholders and regulators to understand if these capital and liquidity standards can be effective and not cause economic harm.

Thank you again for the opportunity to comment upon the Basel III NPRs. We are happy to discuss these issues and others related to the Basel III NPRs in greater detail at your convenience.

Sincerely,

David Hirschmann

From:	Steven Dement
To:	Regs.Comments
Subject:	Community Bank Exemption from Basel III, thus operating under Basel I
Date:	Monday, October 15, 2012 8:21:13 PM

October 15, 2012

To whom it may concern

RE: Basel III Exemption for Community Banks

This letter is regarding the proposed regulations from Basel III. As an employee at James Polk Stone Community Bank in Portales, NM, I have much concern with the Basel III. This bill should not be applied to smaller banks, who pose minimal risk to the economy as compared to the larger banks with assets greater then 2 billion.

The Financial Stability Oversight Council has designated many firms as Systemically Important Financial Institutions, and this is where the Basel III needs to be implemented. Not with the small community banks, who are and have been meeting there financial regulations. Many community banks, the one I am employed at for example, are well above the current stated capital requirements. Why then are we facing the consequences and being burdened by what a percentage of the banks were apart of leading into the 2007 financial crisis. Bloomberg.com posted an article in July of 2011 stating that 10 of the largest banks in America held 77 percent of the domestic assets in the banking system. This is where the Basel III needs to be implemented. Bills like the Dodd-Frank and Basel III are burdening community banks, and decreasing their ability to serve the communities and provide desirable loans. The Basel Panel has already stated that most community banks meet the new financial requirements and that it is the larger banks that need to increase the capital. The Basel III is just going to increase paperwork, compliance, and bring a more complex computation to show that we already meet the proposed capital requirements.

An alternative to all these actions would be to reinstate the Glass Steagal Act, causing all firms who are participating in both, commercial banking and investment banking, to split there operations. This would decrease many risks involved in this type of behavior from many banks, and force them to divest there operations, also decreasing the risk of becoming "To Big to Fail." Increasing capital requirements will only temporarily alleviate the problem of the largest banks in the United States from becoming to big. I believe that reinstating the Glass Steagal Act could permanently alleviate this risk, along with alleviating the risk of customer deposits being involved in the investment banking activities.

Sincerely,

Steven Dement, CBAP
Operations/Credit Analyst
J. P. Stone Community Bank
Phone 575-356-6601
Fax 575-356-6777

10/12/2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

I am a branch manager of a community bank that is 44 branches strong and has been a pillar in the Wisconsin communities that we are located. Our slogan is we are "the bank of you" and we state that we are community minded in our vision and values statement. I am writing because I am concerned that with Basel III we will no longer be able to fulfill our promises to our customers because it will be much too costly to continue to lend with the restrictions that it would impose.

We have been able to stay active in our community as well as stay financially strong through our very conservative lending practices and our attention to measuring risk. We have a strong team of individuals who have been in there respective positions for many years and through those years and experience have developed sound lending practices and are very attentive to reviewing our portfolio constantly. Basel III would be detrimental to our business for several reasons.

Home equity loans are a very competitive product with fairly low risk for us. We depend on these loans as a part of our everyday profit. This product is managed and reviewed by a very capable staff currently that is able to keep our loss low and is able to monitor and contact our customers quickly when we identify any trends that may indicate that the customer would in any way be at risk of no longer being able to pay on these loans. I do understand that this is not a

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

practical function or service a big bank would offer but if Basel III is to protect consumers and prevent risk then you must take into consideration that we are already doing that successfully in a much more consumer friendly way.

Being able to easily sell on the secondary market without extreme capital requirements is also a large part of our business for the pure fact that with the size of our bank we simply cannot take on the risk of 15-30yr terms on our books. We must stick to 10yr max amortization and ARMs or balloons to allow us to manage the changing interest rate environment while maintaining our competitive advantage. With Basel III you are virtually taking away our ability to continue with our current business practices which would result in our inability to have competitive rates which will lead to decrease in loan volume which of course will lead to our demise.

The fact that Basel III would cause need to increase paperwork, processing, document review and document retention will mean that we would need to add additional staff and additional salaries which would take away from the capital that we would need to make any loans at all. You can see where I am going with my points.

Basel III doesn't protect our customers or prevent our risk better than the systems we have already put in place. I would go so bold as to say that even if we where one of the big banks this regulation doesn't hold the necessary benefits to outweigh the disadvantages and cost to the institutions that they would affect. And most of all our Wisconsin communities do not want to be forced to having only two options, big banks or credit unions and that is why Basel III cannot pass.

Thank-you for your consideration,

Andrea Tadych
Branch Manager
North Shore Bank
3970 N Oakland Ave
Shorewood, WI 53211

Seifried & Brew LLC

September 24, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the
Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action and Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements.

Dear Ladies and Gentlemen:

Seifried & Brew, LLC ("S&B") is a community bank consulting firm whose principals are experts in community banking not only as consultants but with their experience as community bank directors and advisors. As such, we want to take this opportunity to offer our opinions as to why we believe the new capital requirements, as proposed by the federal banking regulators, do not protect but hinder community banks. As an alternative to the proposed capital requirements, we also want to recommend other options that we believe will better protect community banks and, thus, the integrity of the financial markets against what ultimately resulted in the Financial Crisis that led to the Great Recession.

As we demonstrate in our book *The Art of Capital Planning – The "How To" Guide,* capital is the foundation upon which every community bank is built. A weak foundation can allow even the strongest of structures to collapse. Likewise, a strong foundation can support and expand on traditional, conservative community banking. Our comments are based on 35+ years of community banking experience. Overall, as experts on community banking risk management, together with our experience as community bank directors, we not only question the new capital proposals, but we also provide our view of how community banks should be capitalized. Specifically, we believe the new capital proposals:

- Do not protect the FDIC Fund;
- Do not protect community banks from failing; and
- Do not deter community banks from assuming excessive risk.

968 Postal Road, Suite 220, Allentown, PA 18109 |Tele: 800.445.4430 |Fax: 610.422.2633

The Banks that Failed

In our roles as community bank advisors and directors, we have seen that the amounts community banks paid in connection with the FDIC's Special Assessment were often times enormous. The general public most likely does not understand that the banking industry paid for the bank failures. We need a risk-based capital system that will protect the community banking industry and will result in banks never having to pay a special assessment into the FDIC Fund as a result of other banks failing or on behalf of those that take on excessive risk.

In our book *How the Seifried & Brew Total Risk Index Predicted 99% of the Failed Banks*, we made the argument that the failed banks were taking high risk years before they failed. The high risk not only included credit risk, the failed banks also exhibited high liquidity risk, high earnings risk and high capital risk. The warning signs were obvious in the majority of these failed banks. They had risks that were imbalanced.

Credit Risk brought down the majority of failed banks. That is why credit risk is the "mother of all risks" in community banks. What were the early warning signs? High loan growth, change in loan mix, high volume of loans to capital, and a riskier loan mix were all risk indicators. But remember, these were not some new "thing" in the industry; these lending risks have always been part of banking. Although credit risk does not automatically trigger panic, statistically, a bank with higher credit risk will have a higher probability of having capital losses.

Liquidity risk just fans the flames of a problem bank. Because liquidity is the structure of how a community bank funds itself, a bank with a high level of cash-type deposits (checking, savings and NOW accounts) is considered as having low liquidity risk. The bank that funds itself with "hot money" CDs, brokered deposits, and borrowed funds are considered to have higher liquidity risk. Emblematic of many of these failed banks was high liquidity risk. One could say that troubled banks funded risky loan portfolios with "hot money."

"Earnings at risk" is a challenge to all community banks to protect the net interest margin to changes in interest rates. Interest rate risk and its impact on net income are imperatives to driving consistent profitability. The failed banks had high earnings at risk.

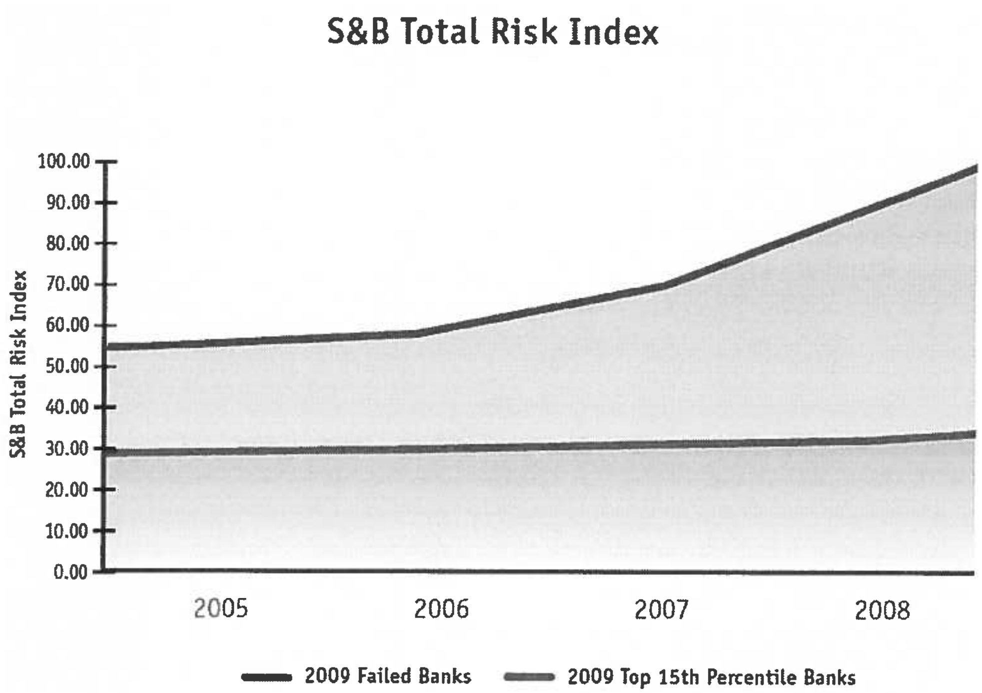
And, then there is capital risk. It is obvious that the failed banks did not have sufficient capital to survive.

Excerpted below and on the following pages is a chapter from our book *How the Seifried & Brew Total Risk Index Predicted 99% of Failed Banks* that illustrates the high level of risk assumed by the failed banks.

> The Seifried & Brew Total Risk Index ("S&B Risk Index") is a dynamic set of risk indicators that is the continuing culmination of Dr. Ed's and Jay's experience of assessing risk in community banking. The key philosophy of the S&B Risk Index includes:
>
> - The choice of significant risk ratios;
> - The weighting of each risk ratio based on its priority;

• Ranking the risk ratios versus all community banks nationally; and
• Aligning the S&B Risk Index with the regulatory CAMELS.

To align the S&B Risk Index with the regulatory CAMELS, the areas of key focus are Capital Risk, Credit Risk, Earnings at Risk, and Liquidity Risk. To illustrate the risks and the effectiveness of the S&B Risk Index, we have used two groups of banks. The first is the Seifried & Brew Top 15th Percentile of community banks in 2009 (the "S&B Top 15th Percentile Banks"). These banks have consistently performed at high levels before, during, and post-Financial Crisis. The second group is made up of the banks that failed in 2009 (the "2009 Failed Banks"). We have provided four years of data to show their trends in risk.

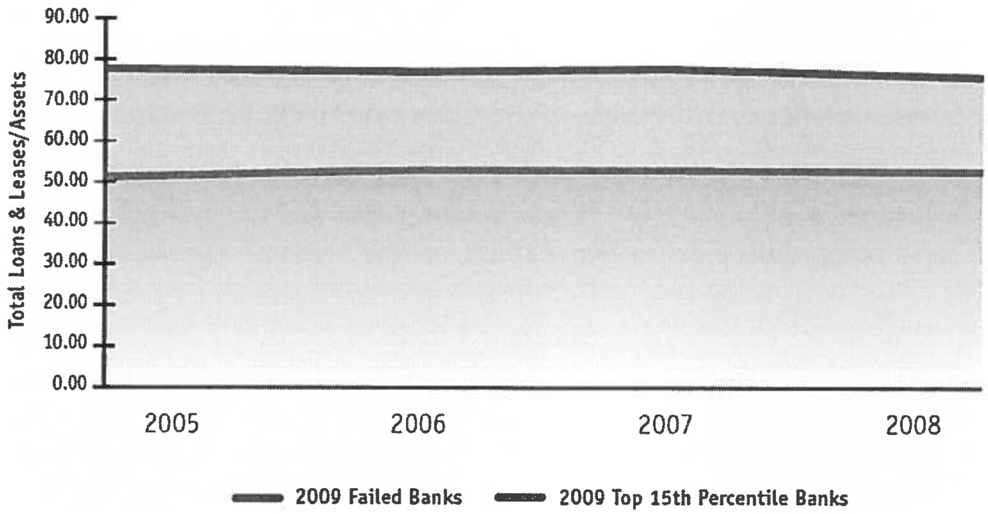


The comparison between the S&B Top 15th Percentile Banks and the 2009 Failed Banks reveals an interesting fact about community banking. Successful community banking is a moderate- to low-risk business model! This comparison clearly illustrates that the banks that failed in 2009 were taking a significant level of risk and that the risks were trending higher many years before failure occurred.

CREDIT RISK

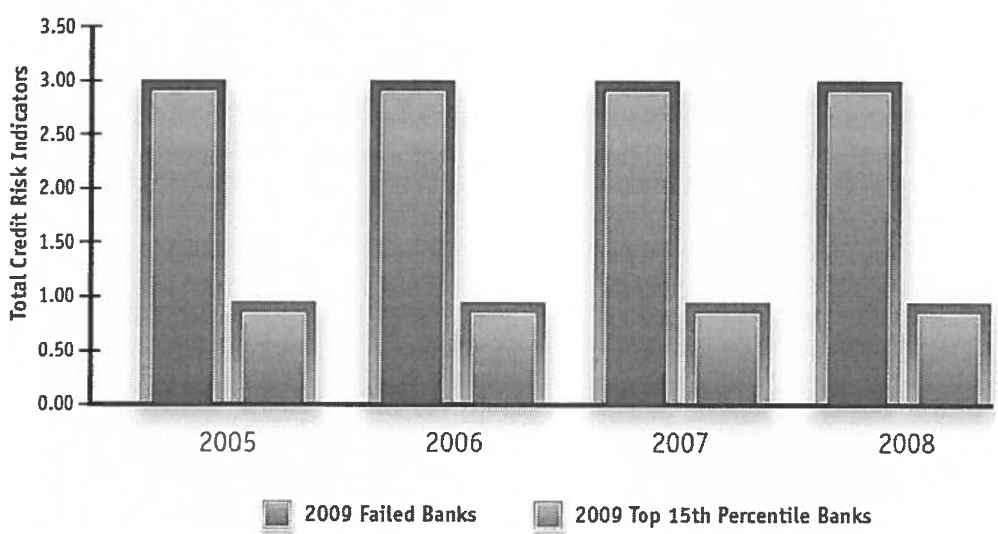
What Dr. Ed refers to as the "mother of all risks" is Credit Risk. Credit Risk has the highest weighting for risk in the S&B Risk Index. The ratios included in Credit Risk are discussed below.

Total Loans & Leases/Assets

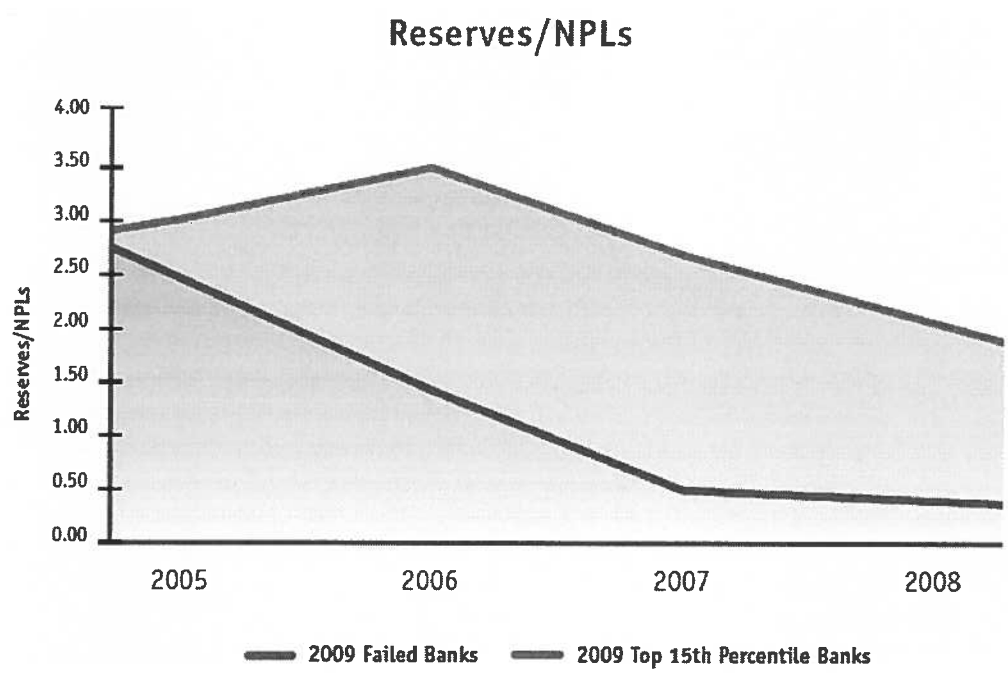


This comparison clearly shows that having higher loans to assets does not necessarily improve long-term performance. The higher probability of having more loan issues may not be worth the risk. It is also interesting that the S&B Top 15th Percentile Banks have consistently remained below the 60% threshold. Jay considers this one of their secrets for high performance. Jay also points out that there has never been a correlation between having more loans and having high performance.

Total Credit Risk Indicators

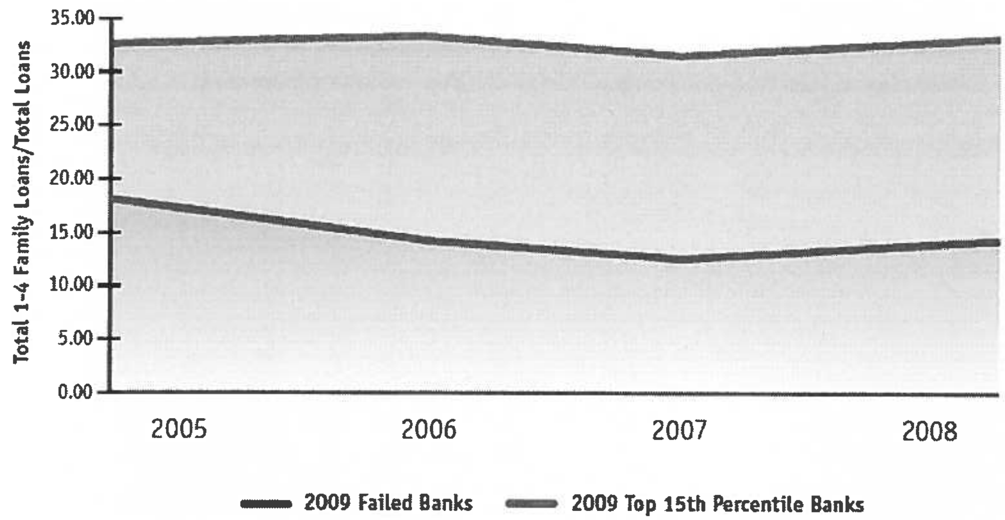


The Credit Risk indicators include adjusted reserves to adjusted loans, change in portfolio mix, net loan growth, net loans to assets, total loans to equity, and yields on loans and leases. Dr. Ed and Jay have found that monitoring the total number of these risk indicators is very indicative of Credit Risk. The 2009 Failed Banks consistently had three out of five Credit Risk indicators, which would indicate heightened Credit Risk. On the other hand, the S&B Top 15th Percentile Banks consistently had a low level of risk with only one Credit Risk indicator.



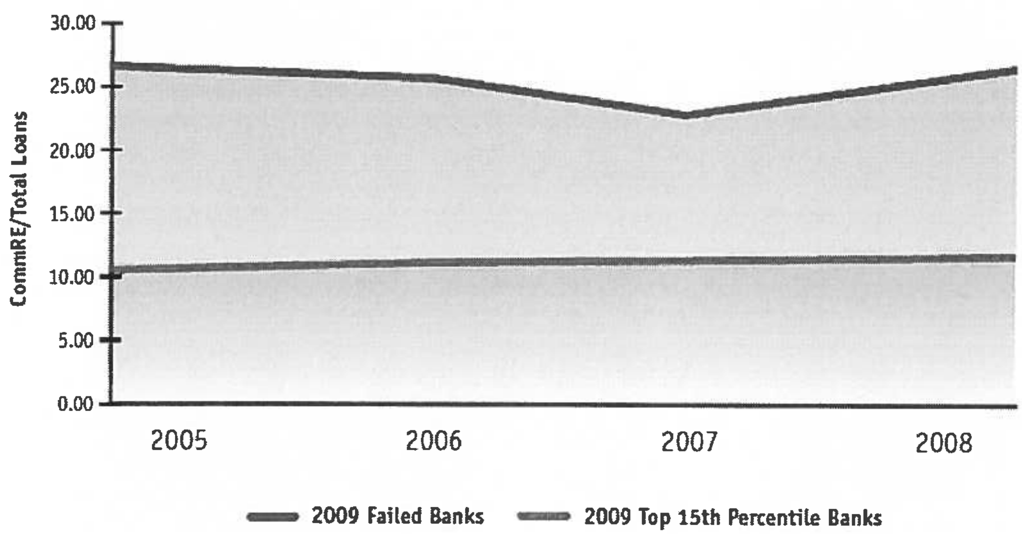
Even though the 2009 Failed Banks had a heightened level of Credit Risk, they had a lower level of reserves set aside before the Financial Crisis than the S&B Top 15th Percentile Banks. As non-performing loans increased, the reserves for the 2009 Failed Banks were rapidly depleted even though they escalated their allowance. This chart shows the extreme performance of having the proper level of reserves versus a community bank's Credit Risk profile.

Total 1-4 Family Loans/Total Loans

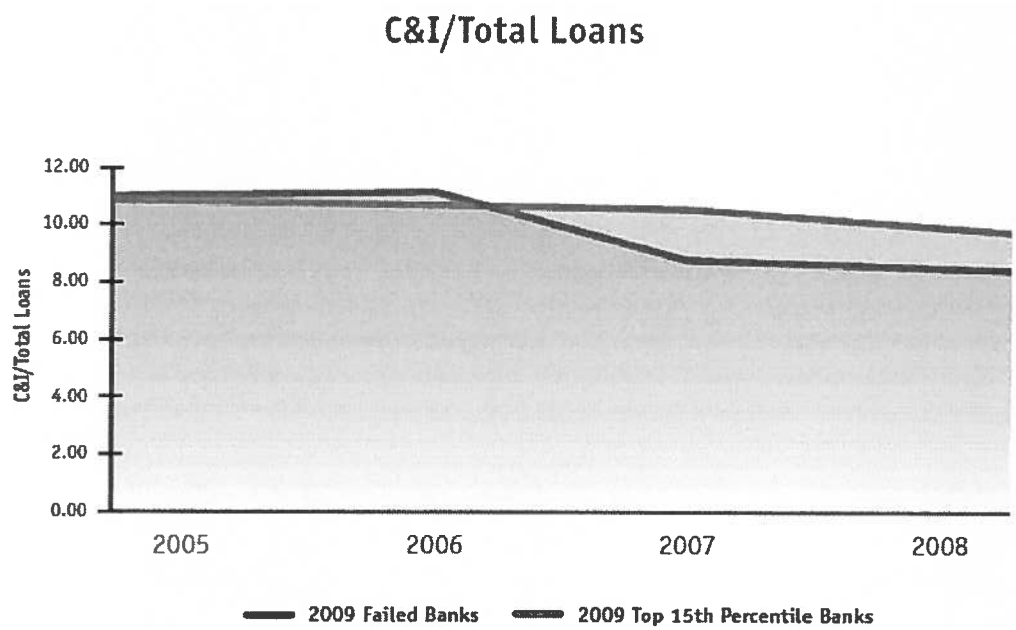


While many commercial bankers contend that home loans are boring, it is interesting to note that the S&B Top 15th Percentile Banks have used this type of lending as a foundation of their loan portfolio. Based on conservative home lending underwriting standards for community banks, home loans may be boring, but they are of high quality. Home lending tends to balance the risk in community bank loan portfolios. By having a low level of home-type loans, the 2009 Failed Banks increased their Credit Risk with more concentration in higher risk loans.

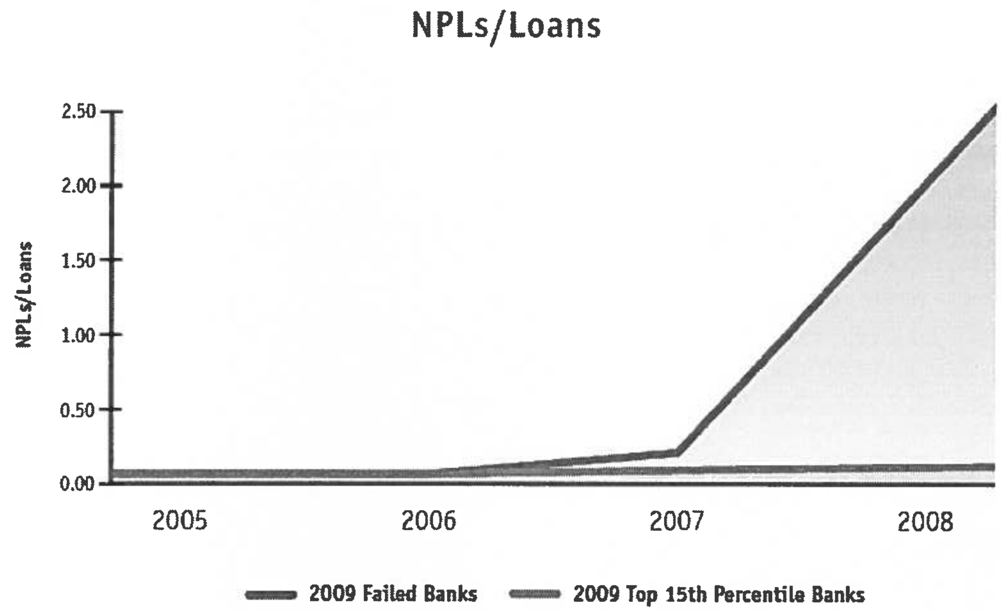
CommRE/Total Loans



When the history of the Financial Crisis is written, commercial real estate loans and development loans will be the culprit of causing the downfall of the majority of the 2009 Failed Banks. One way to think of this loan type is that a developer wants a bank to take the majority of the risk on a project. In some instances, this may make sense for a bank to take this risk. But, the 2009 Failed Banks took on too much of this risk with more than 25% of their loan portfolios concentrated in this higher risk loan type. Over time, the S&B Top 15th Percentile Banks have operated with approximately 10% in development-type loans. Dr. Ed and Jay believe that going forward, community banks should only commit up to 5% in this loan type.



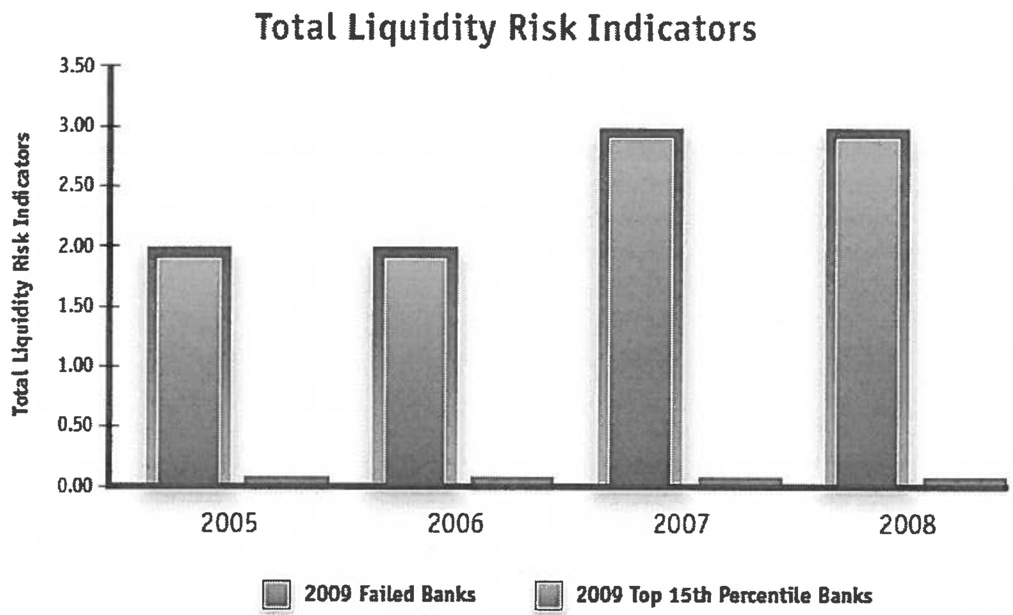
While C&I lending is considered a riskier type of lending, it is interesting to note that the 2009 Failed Banks did not have significant exposure in this area and were similar in concentration to the S&B Top 15th Percentile Banks.



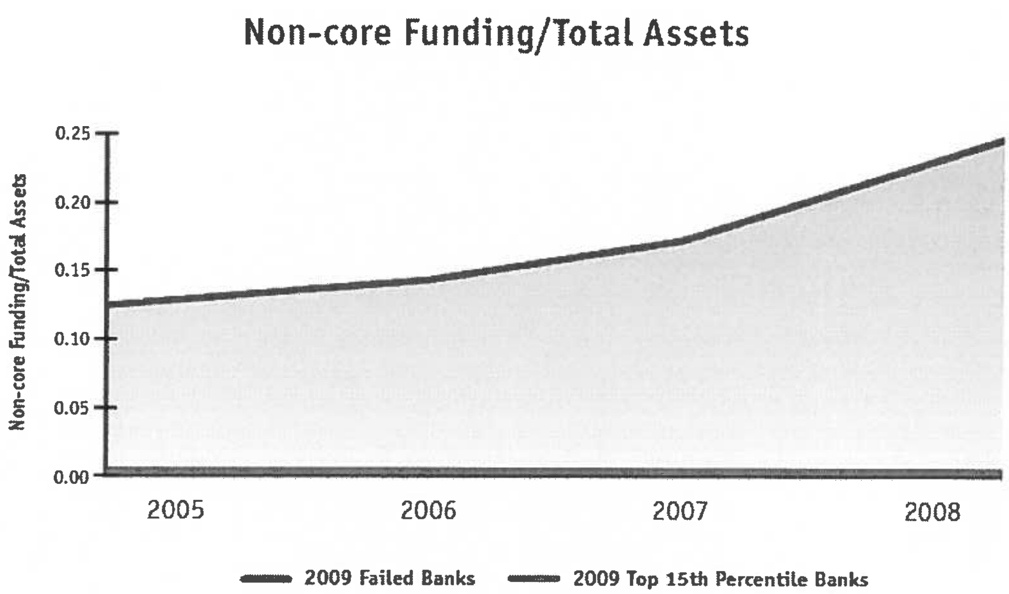
Directors should monitor Credit Risk by tracking the trend in non-performing loans. During the Financial Crisis, Dr. Ed and Jay "graded" a bank's performance in managing Credit Risk on the trend and level of non-performing loans. By taking a moderate to low level of Credit Risk in this area, the S&B Top 15th Percentile Bank would receive honors from Dr. Ed and Jay!

LIQUIDITY RISK

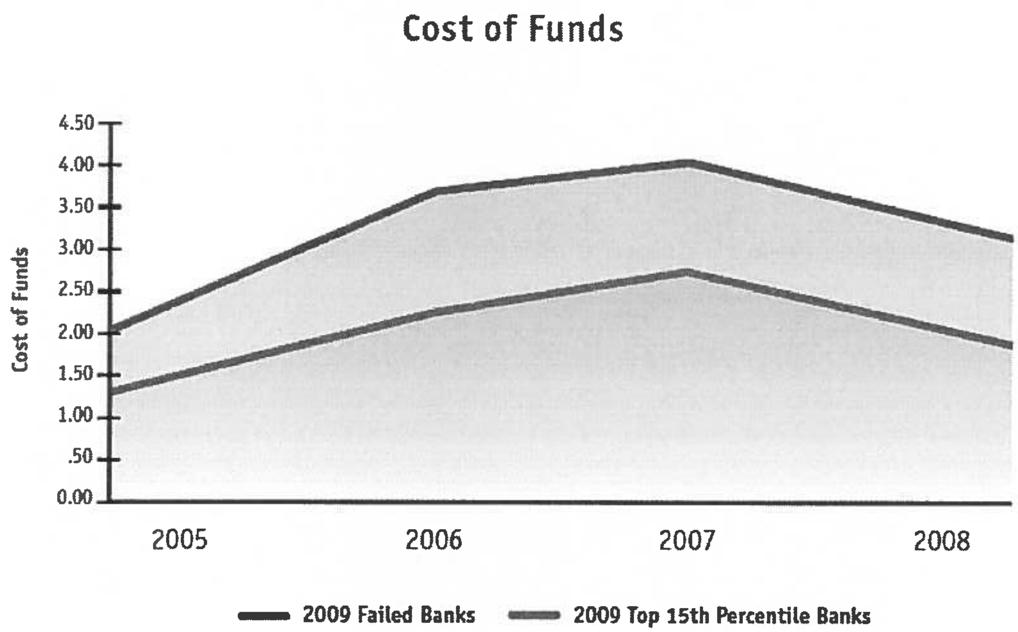
Liquidity Risk has a high weighting in the S&B Risk Index. Over time, Liquidity Risk is not only costly to a bank, but it also shows an inherent inability for a community bank to fund itself with relationships that include low-cost checking and savings deposits versus funding with "hot" money. Liquidity Risk assesses a community bank's quality of earnings. The ratios included in Liquidity Risk are discussed below.



Similar to the Credit Risk indicators, Dr. Ed and Jay look at a mix of five Liquidity Risk indicators. These indicators include net loans to deposits, net non-core fund dependency, net short-term liabilities to assets, on-hand liquidity to liabilities, and reliance on wholesale funds. Two years before they were closed, the 2009 Failed Banks increased their average Liquidity Risk to three Liquidity Risk indicators. The 2009 Failed Banks' higher Liquidity Risk suggests that their aggressive lending was being funded and leveraged with more volatile funding versus the S&B Top 15th Percentile Banks.

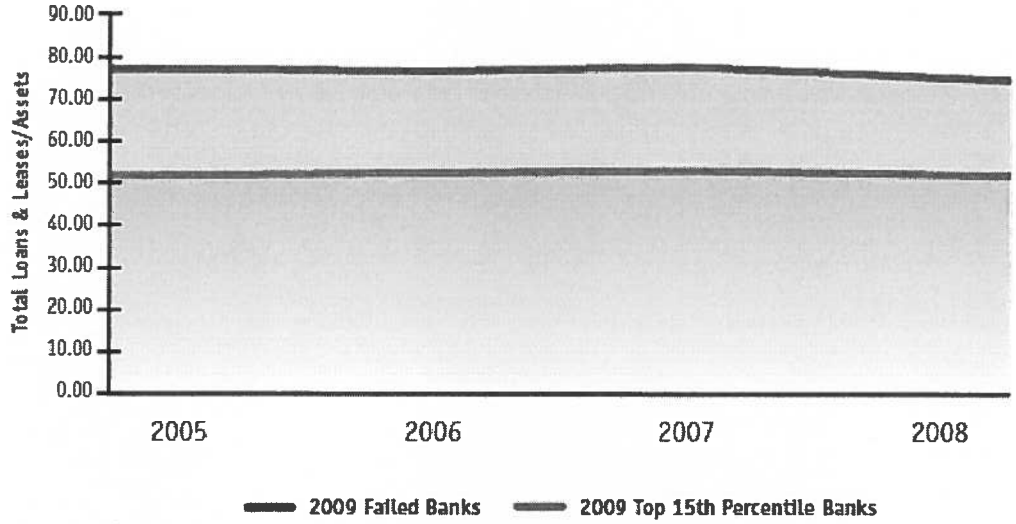


The primary key to the performance of the S&B Top 15th Percentile Banks is that they adhered to traditional, conservative community banking. The evidence of this is revealed in their complete lack of dependency on non-core funding. In other words, the S&B Top 15th Percentile Banks fund their loans with checking, savings, money markets, and local CDs. On the other hand, the liquidity ratio of the 2009 Failed Banks showed constant heightened Liquidity Risk many years before they were shuttered.

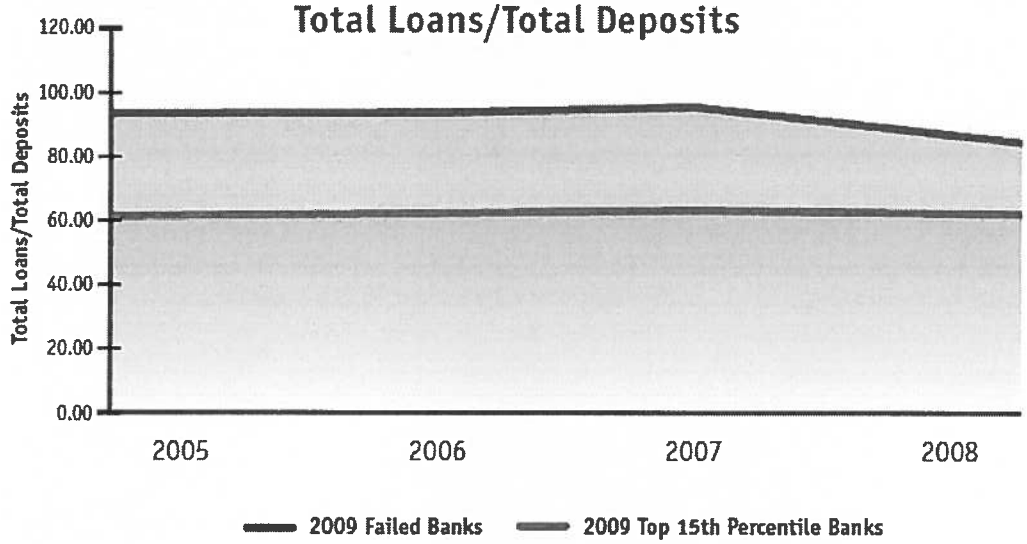


The proof of Liquidity Risk can also be seen in the actual cost of funding. The difference between the S&B Top 15th Percentile Banks and the 2009 Failed Banks is significant.
This supports Dr. Ed's and Jay's argument that community banks must focus on the strategy to build core deposits. This strategy provides more stable and higher profitability and reduces Liquidity Risk, Earnings at Risk, and Capital Risk.

Total Loans & Leases/Assets



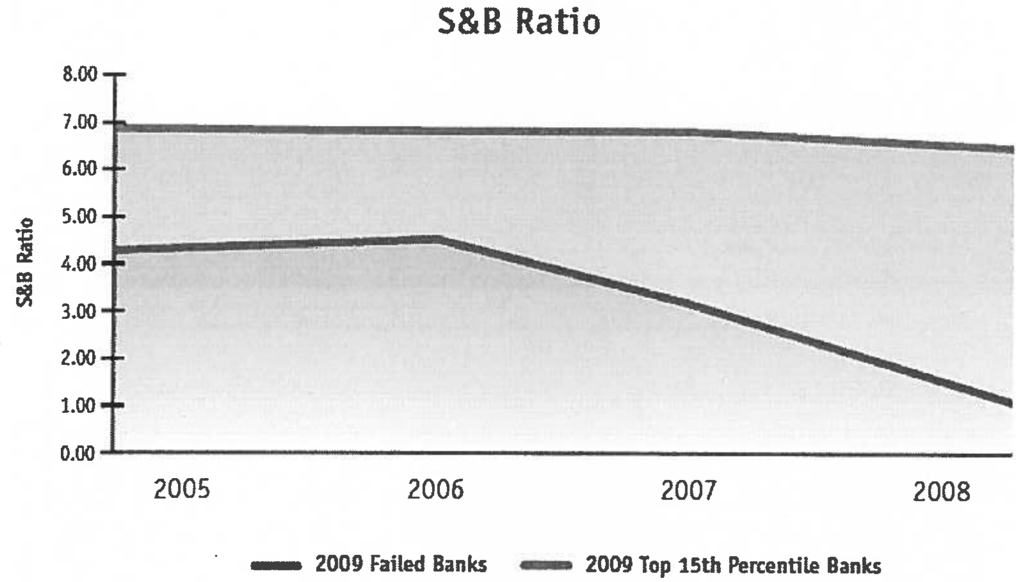
Total Loans/Total Deposits

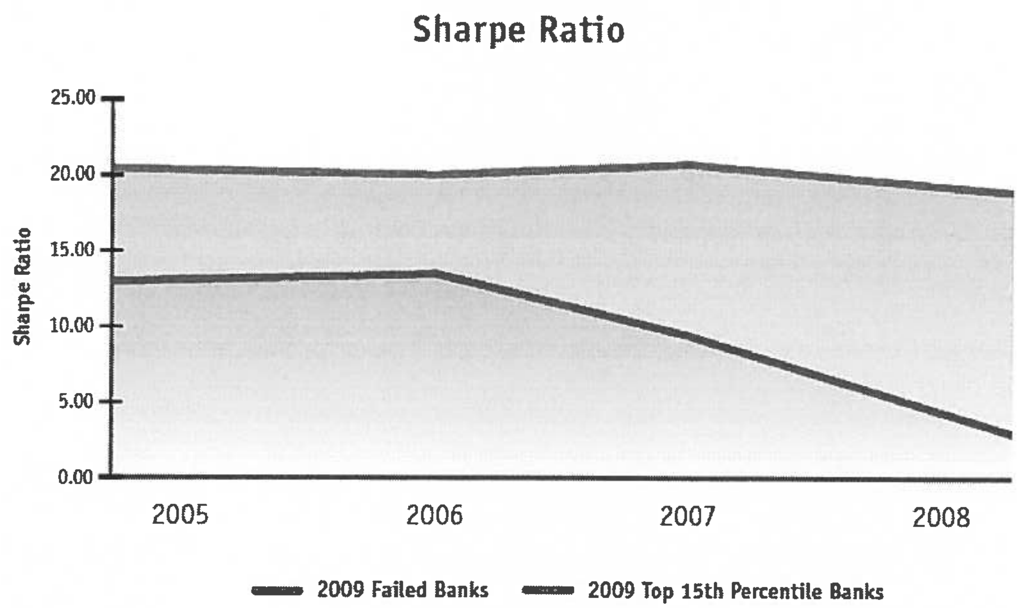


While these ratios are often considered an indicator of Credit Risk, they also point to Liquidity Risk. If a bank has loans to assets in excess of 70%, it could be surmised that there are less liquid assets, such as investments, to rely upon if liquidity is needed. In certain events, it can also place pressure on a bank to be forced into paying for high cost money to fund illiquid loans, such as what occurred during the Financial Crisis. Pre-Financial Crisis, loans to deposits was questioned as an out-of-date risk indicator. Post-Financial Crisis, the ratio is an indicator of Liquidity Risk that matches the volume of loans being funded with traditional deposits.

EARNINGS AT RISK

Earnings at Risk is the Interest Rate Risk of a community bank. While important, Earnings at Risk has the lowest weighting. The S&B Risk Index measures the volatility of the net interest margin versus the volatility of all community banks in the nation.



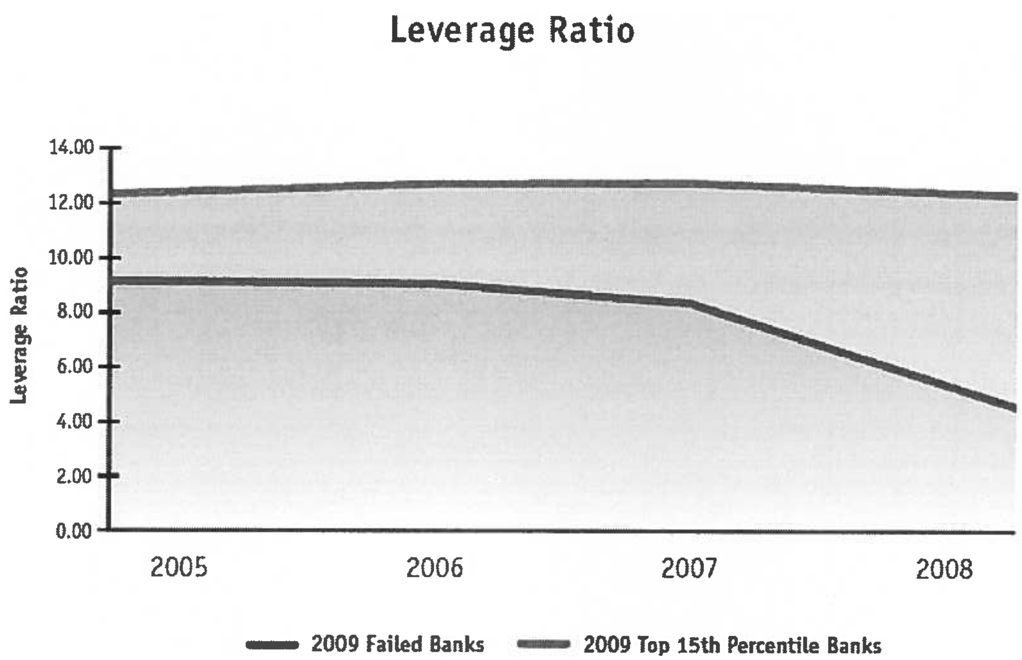


The S&B ratio and the Sharpe ratio model trends in volatility compared to a median benchmark over time. These are valuable tools when looking at the volatility of a bank's net interest margin. S&B takes an individual bank's changes in net margin and compares it to the median of all community banks in the nation over a two year period. The more volatile a bank's margin is to the national median would be deemed a higher risk to changes in interest rates.

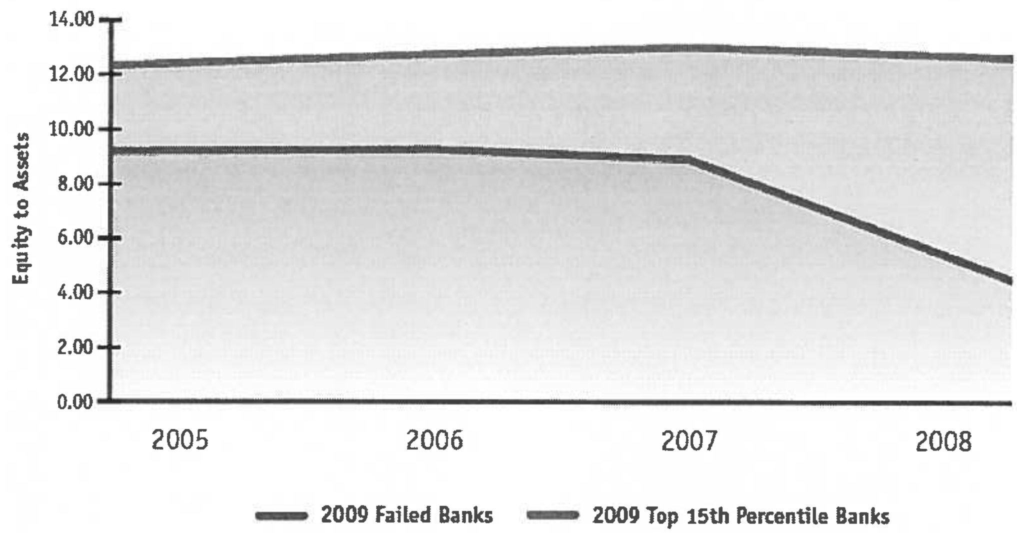
What is surprising to Dr. Ed and Jay is that the 2009 Failed Banks had heightened risk in all areas of risk. This created a "perfect storm" where all of the risks congregated to cause failure. It is no surprise to Dr. Ed and Jay that the S&B Top 15th Percentile Banks had significantly less volatility due to their significant level of core deposits.

CAPITAL AT RISK

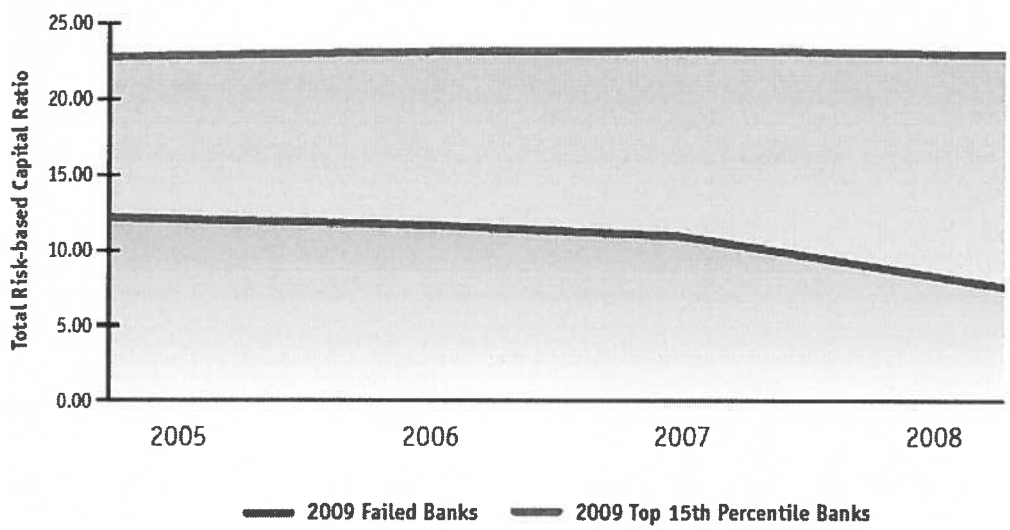
In their book *The Art of Capital Planning*, Dr. Ed and Jay ask, based on ever-changing regulatory factors, does a community bank have adequate capital to support the level of risk taken? The components of the capital ratio are illustrated by the charts on the following pages.



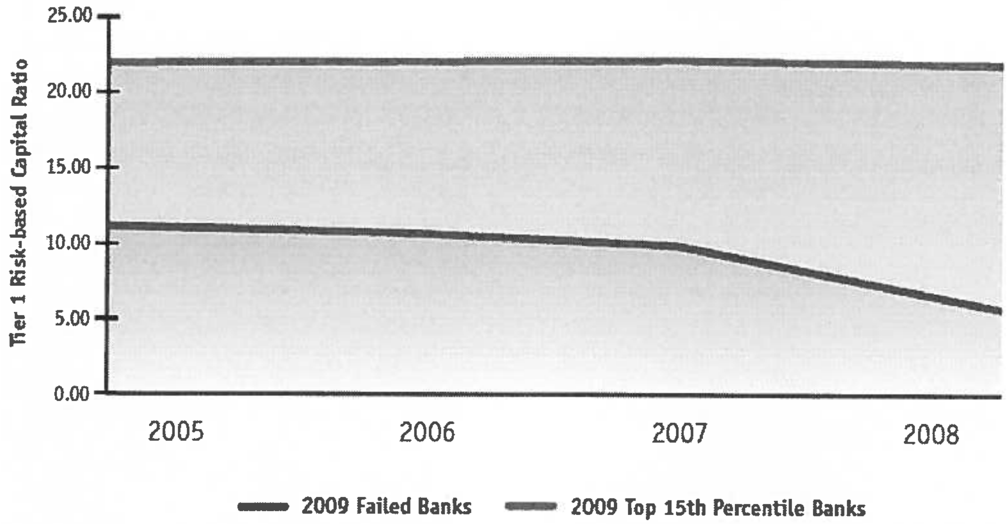
Equity to Assets



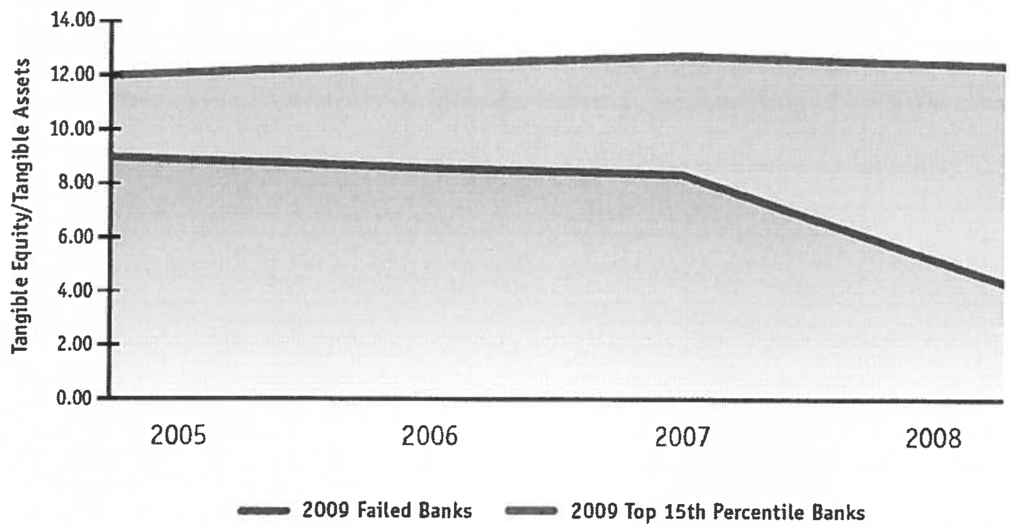
Total Risk-based Capital Ratio



Tier 1 Risk-based Capital Ratio



Tangible Equity/Tangible Assets



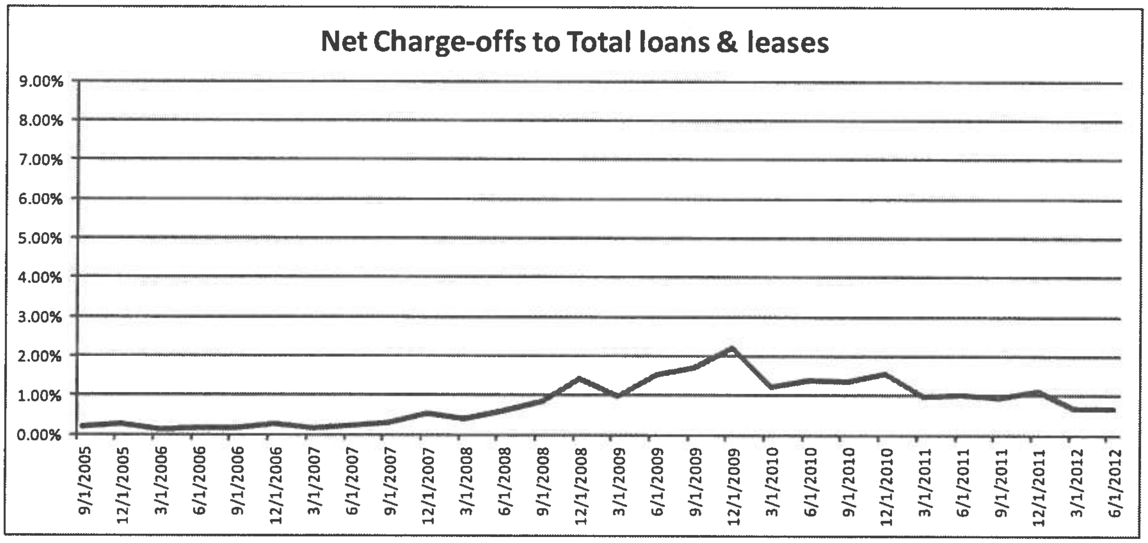
It is safe to say that the 2009 Failed Banks did not have adequate capital to support the risks they took. Yet, based on where these banks stood in 2005 at below 12% risk-based capital and below 9% tangible equity, it could be argued that the 2009 Failed Banks were also at heightened Capital Risk versus all banks in the nation and that the Financial Crisis pushed these banks quickly over the edge. Many analysts would have criticized the S&B Top 15th Percentile Banks for having too much capital pre-Financial Crisis. Yet as the results show, having a significant capital cushion is the profile that fosters an outcome of high performance.

Net Charge -Off Experience

The new capital proposals do not reflect the actual net charge-off experience of community banks after the Financial Crisis and the Great Recession. In fact, by changing the risk weightings on 1 to 4 family mortgages and home equity loans, the proposals are not properly utilizing or considering the conservative underwriting standards exercised by most community bankers.

Total Loans and Leases

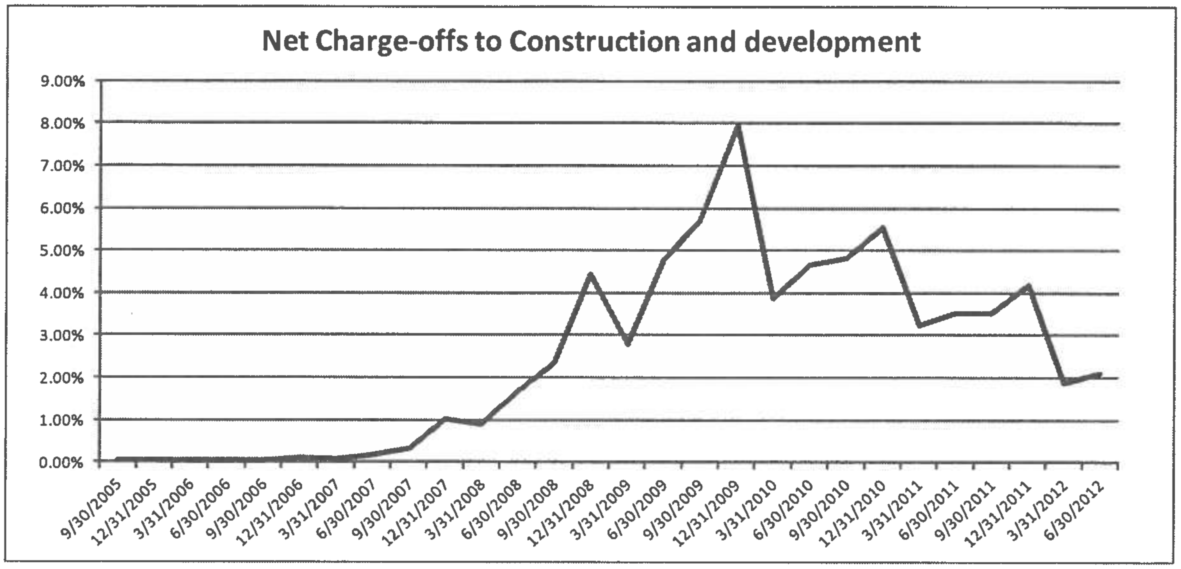
Community banks' overall net charge-off experience hit a high of 2.21% in 2009 and moderated lower throughout 2010 to 2012. While all banks have issues during a credit cycle, the actual net charge-off experience during one of the worst economies in United States history could be considered minimal.



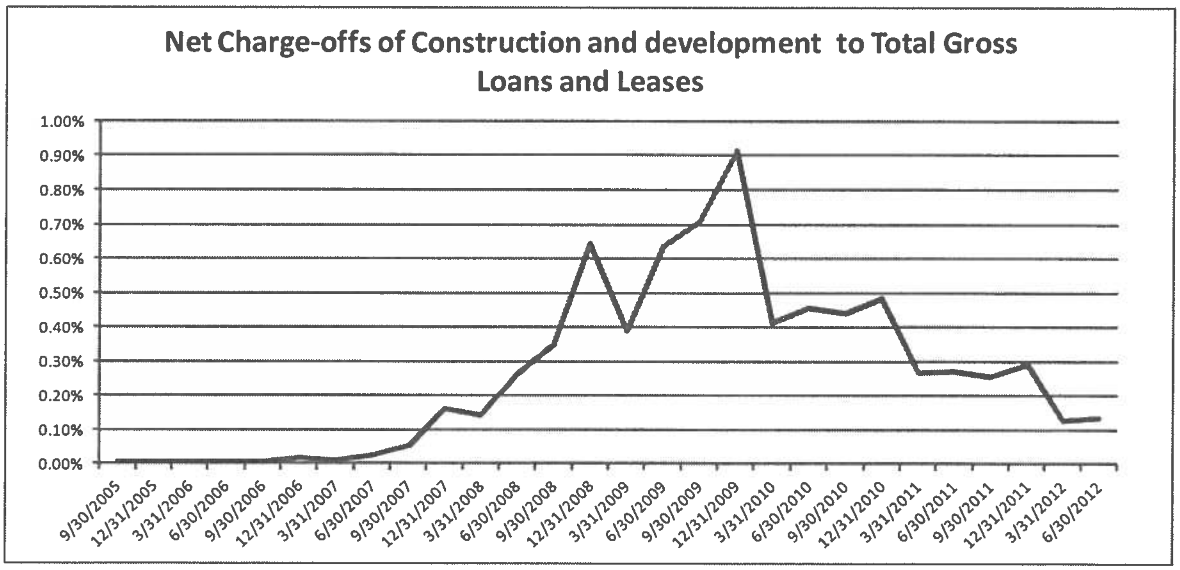
Max: 2.21% | Min: 0.13% | Average: 0.82%

Construction and Development Loans

The loans that were the root cause of the failed banks were construction and development loans. This loan type experienced the highest net charge-offs at 7.96% after the Financial Crisis and Great Recession. The new capital proposals increase the risk weightings on High Volatility Commercial Real Estate Exposure (HVCRE) to 150%. This risk weighting is too low based on the risk these loan types presented to the community banking industry over time. We recommend a 200% risk weighting on all construction and development loans.



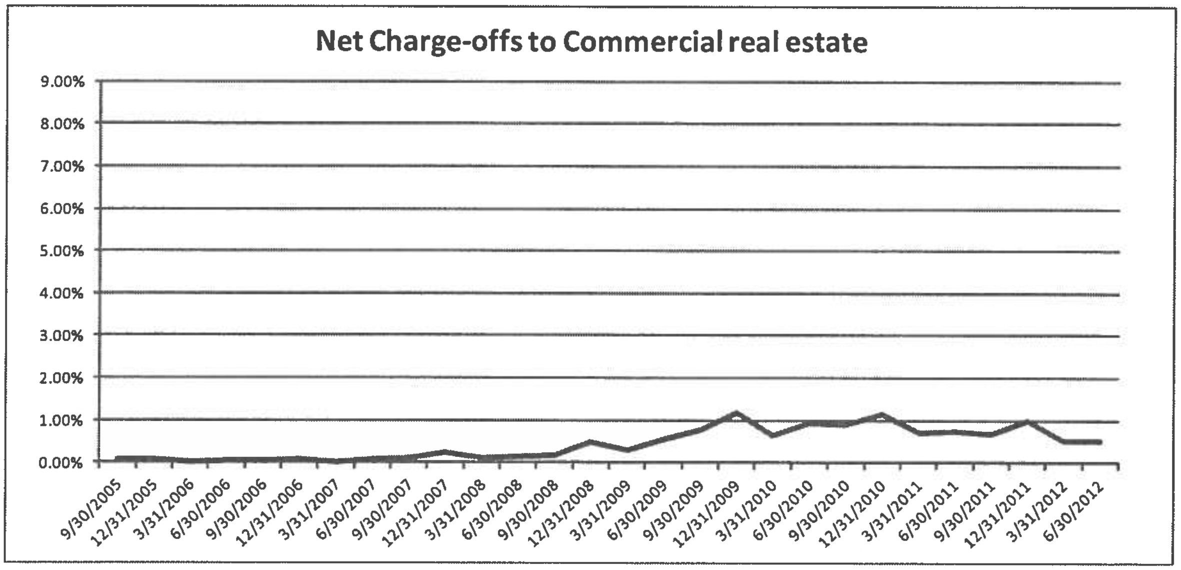
Max: 7.96% | Min: 0.03% | Average: 2.49%



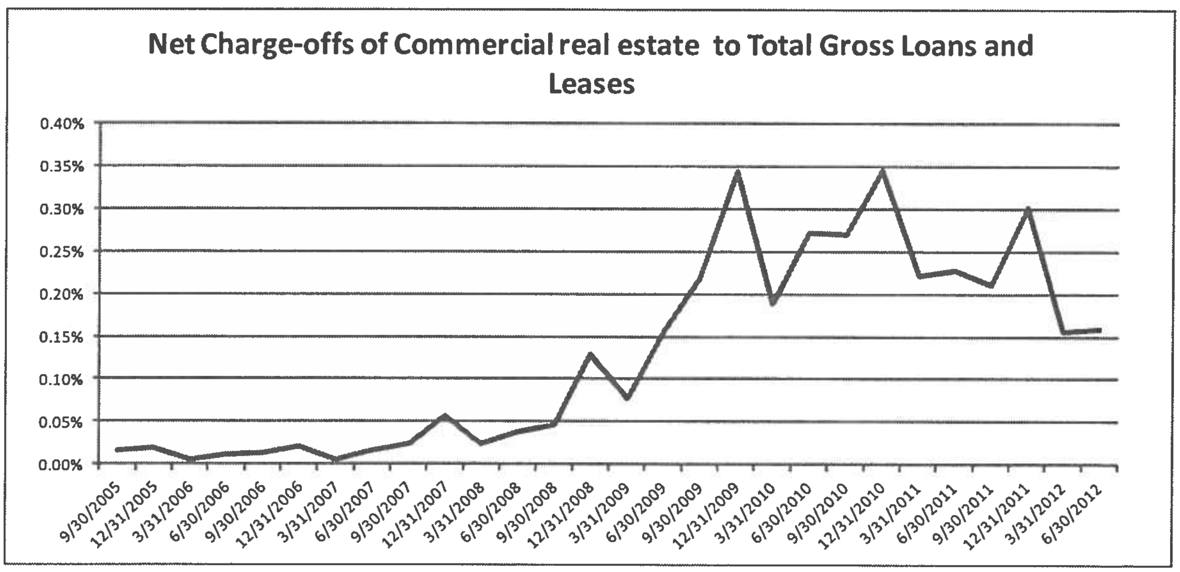
Max: 0.91% | Min: 0.00% | Average: 0.27%

Commercial Real Estate Loans

Commercial real estate loan net charge-off results are surprising. Considering the state of the economy, net charge-offs on commercial real estate loans were minimal. An argument can be made that the significant regulatory concern on this loan type has been and is overdone. Additionally, one could argue that a 100% risk weighting is too high based on the net charge-offs experienced by community banks during the Financial Crisis and Great Recession. We suggest that a 50% to 75% risk weighting is sufficient and more appropriate.



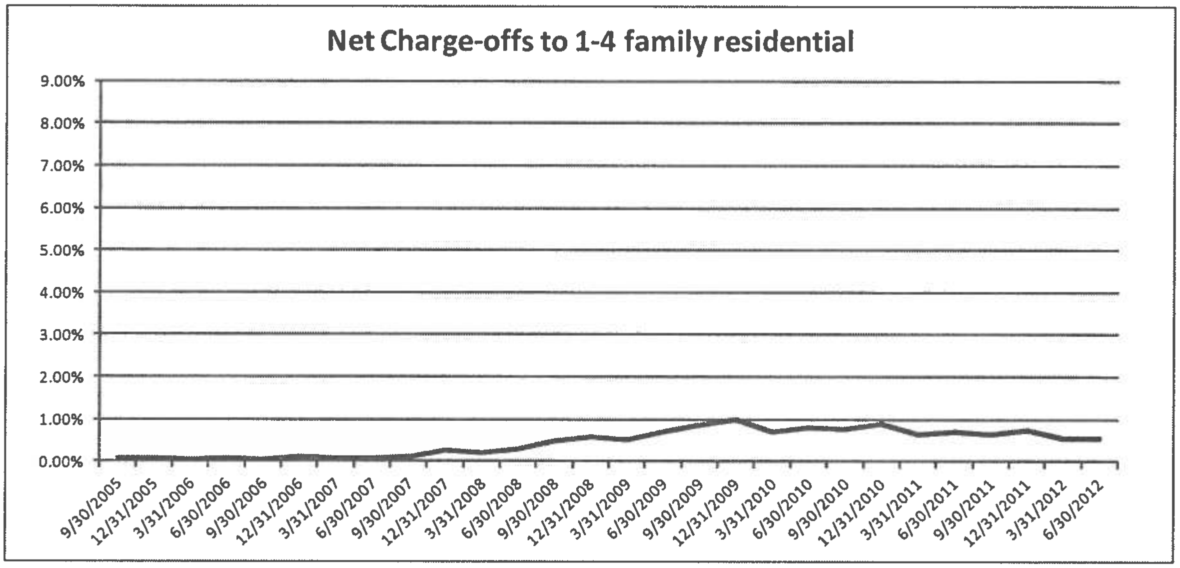
Max: 1.19% | Min: 0.02% | Average: 0.44%



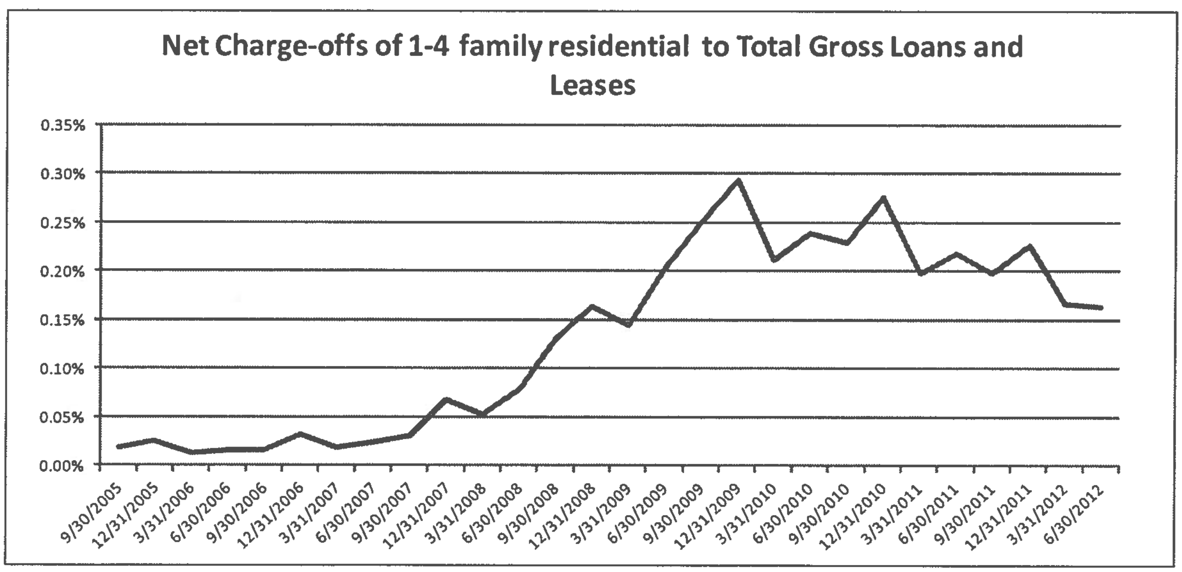
Max: 0.35% | Min: 0.01% | Average: 0.13%

1 to 4 Family Mortgage Loans

The net charge-offs on 1 to 4 family mortgage loans hit a high of 1% after the Financial Crisis and Great Recession. As a percentage of total loans, this was .29%, which is negligible. Yet, the new capital proposals raise the risk weighting on these Category 1 loans to 50%. We believe a 20% risk weighting is more appropriate and sufficient.



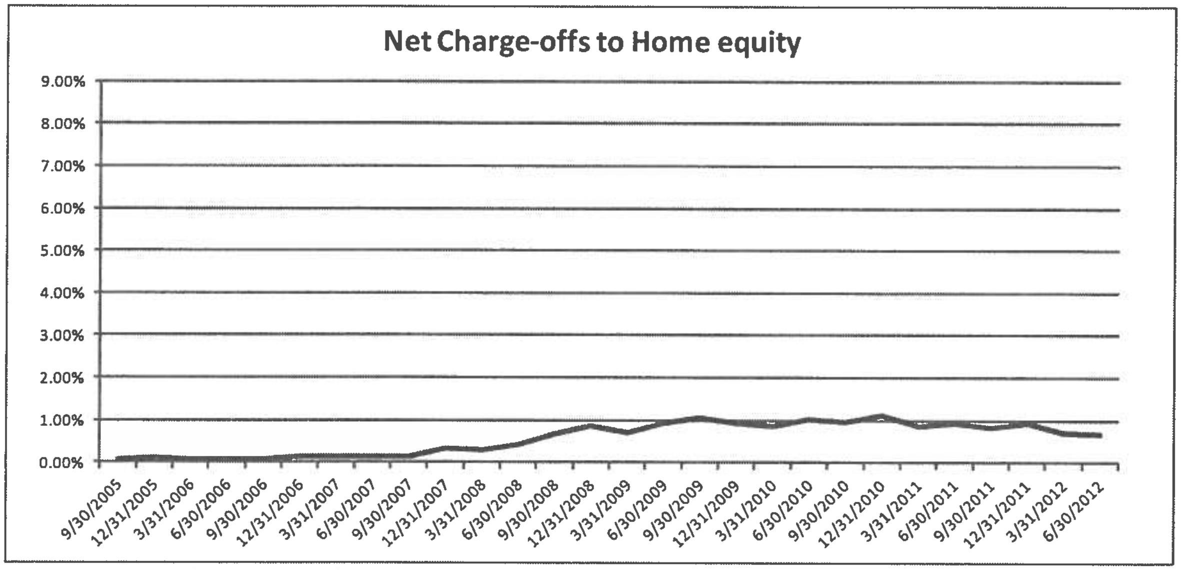
Max: 1.00% | Min: 0.04% | Average: 0.45%



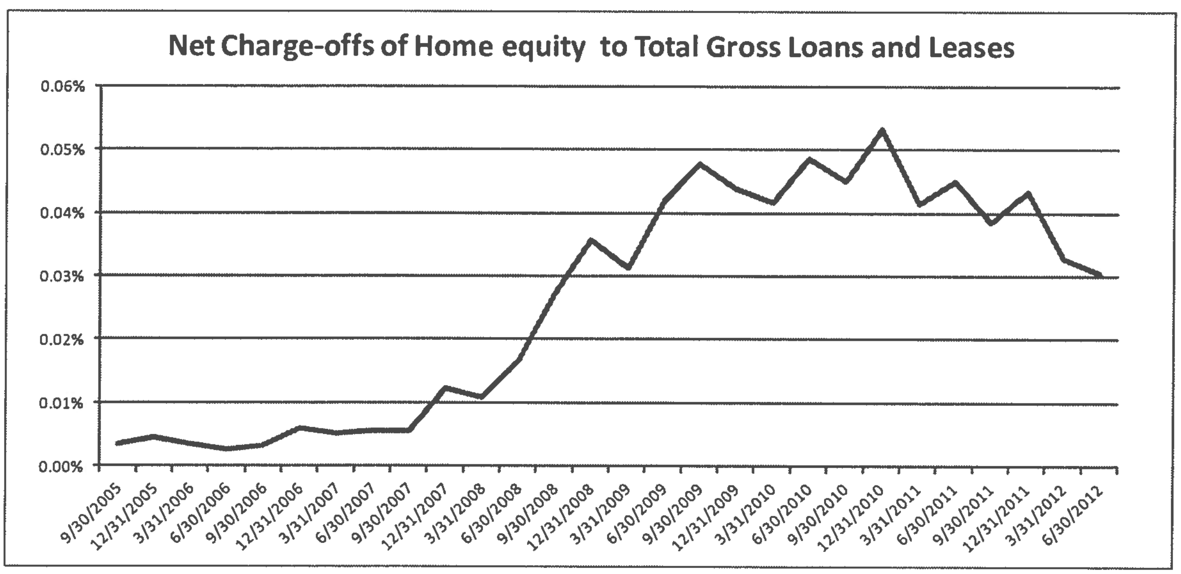
Max: 0.29% | Min: 0.01% | Average: 0.13%

Home Equity Loans

The new capital proposals identify most home equity loans as Category 2 mortgages and are considered in the proposals as a higher-risk form of lending. Community banks' overall net-charge-off experience from home equity loans during the Financial Crisis and Great Recession was negligible. The new risk weightings would require 100% risk weighting for this type of loan. Yet, the community banking industry hit only a 1.11% net charge-off high after the Financial Crisis and the Great Recession. This represented only .05% of total loans. The trend in home equity loan net charge-offs was very similar to the trends in 1 to 4 family loan net charge offs, yet the new capital proposals have very different risk weightings. We suggest a risk-weighting of 20% for this loan type.



Max: 1.11% | Min: 0.06% | Average: 0.58%



Max: 0.05% | Min: 0.00% | Average: 0.03%

Summary

In summary, the new capital proposals focus on changing the risk weightings on 1 to 4 home mortgage and home equity loans. The actual results of the Financial Crisis and the Great Recession illustrate that community banks took relatively small net charge-offs for these loan types. To increase the risk weightings for community banks makes no sense based on these results and makes the argument that the current risk weightings are more than sufficient for home mortgages and home equity loans.

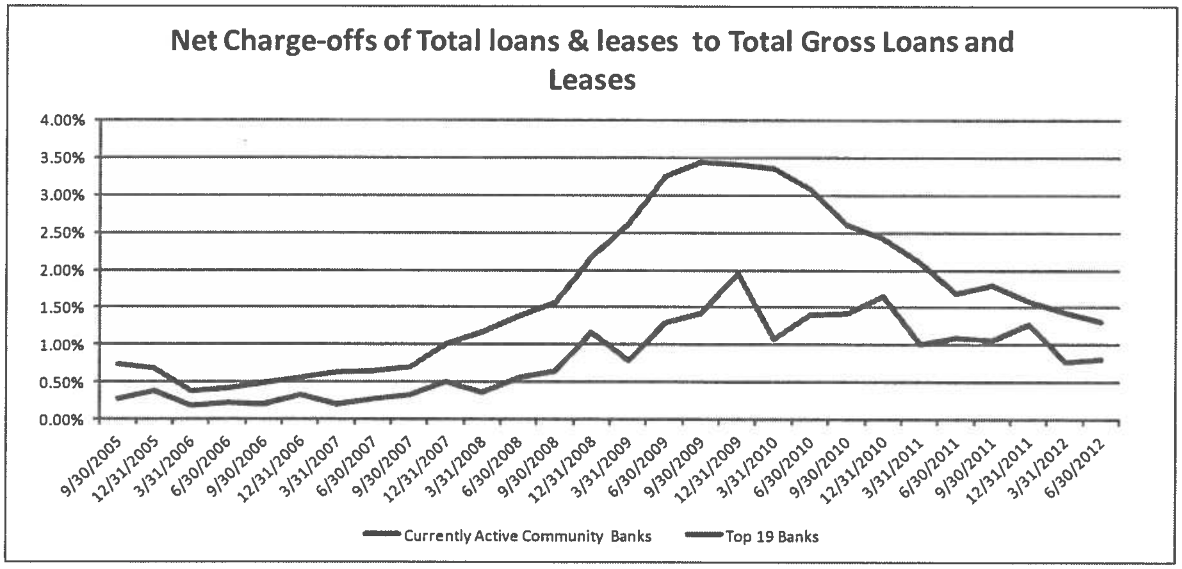
Changing the risk weightings on 1 to 4 mortgage and home equity loans will also create more paper work and employee time. There is also the risk that some banks may not want to portfolio these loan types, which could curtail lending activity and hurt consumers. For instance, a bank for which one of our principals is a director does exclusively home equity lending for first lien mortgages. The mortgage product gives the customers a cheaper and a faster home mortgage. The bank's experience with net charge –offs is significantly lower than the national average. Based on the proposed 100% risk weighting, this bank, however, may have to curtail its conservative method of lending in order to manage risk-based capital.

On the other hand, the proposed risk weighting for commercial construction/development loans is too low based on the risk these loan types presented to the community banking industry over time.

Overall, community banks should be commended for their underwriting standards and risk management of their loan portfolios. Consideration by the regulators should be given to these standards and risk management as they formulate the new capital requirements.

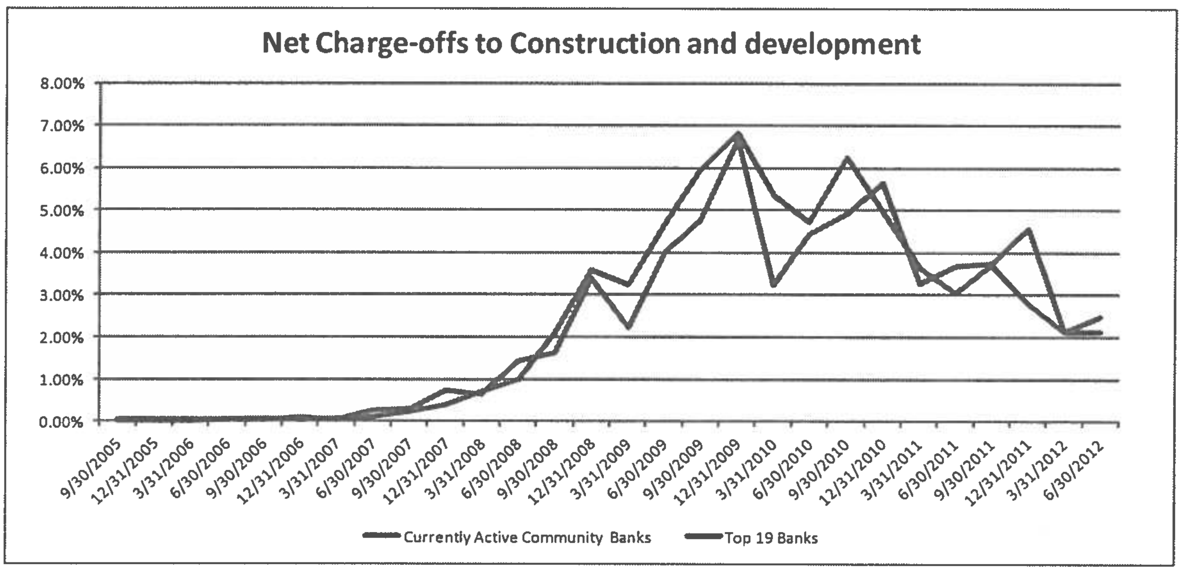
Why Community Banks are Different than Large Banks

During the Financial Crisis and the Great Recession, community banks with up to $5 billion in assets had less net charge-offs compared to the 19 largest banks.



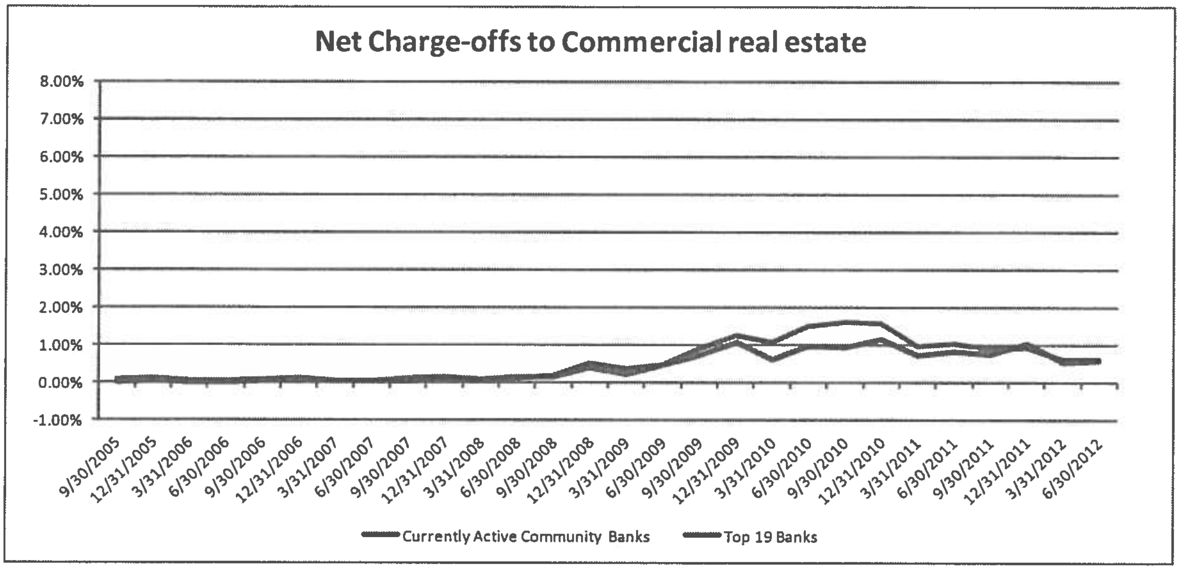
Top 19 Banks ---Max: 3.45% | Min: 0.37% | Average: 1.66%
Currently Active Community Banks ---Max: 1.96% | Min: 0.19% | Average: 0.81%

Net charge-offs on construction and development loans were similar.



Top 19 Banks---Max: 6.81% | Min: 0.00% | Average: 2.42%
Currently Active Community Banks---Max: 6.65% | Min: 0.03% | Average: 2.30%

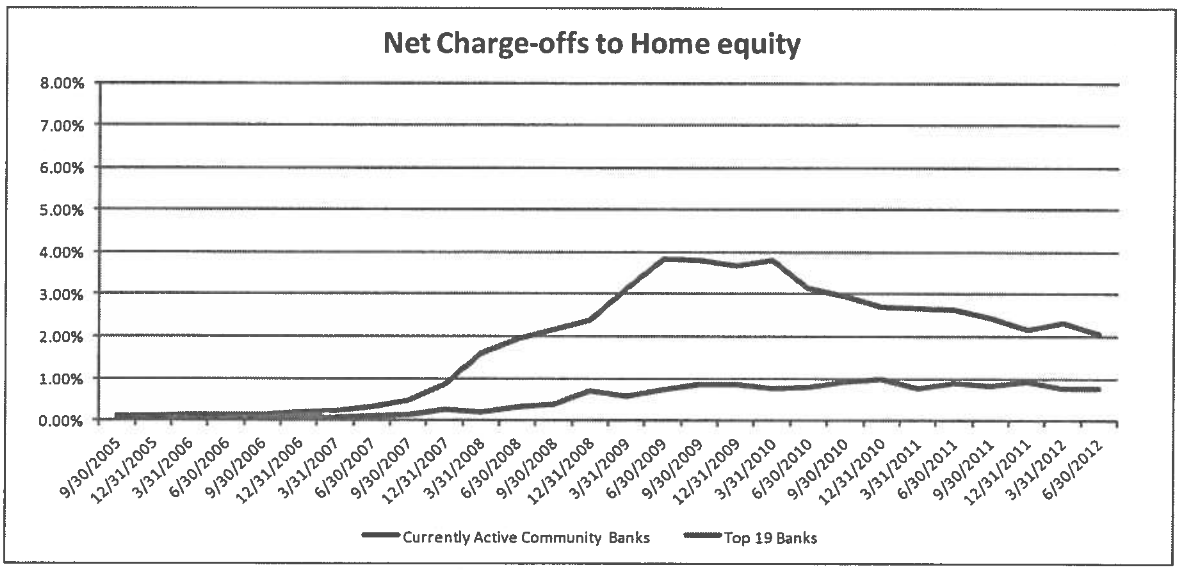
Net charge-offs on commercial real estate loans were also similar.



Top 19 Banks---Max: 1.60% | Min: -0.01% | Average: 0.54%

Currently Active Community Banks---Max: 1.14% | Min: 0.03% | Average: 0.44%

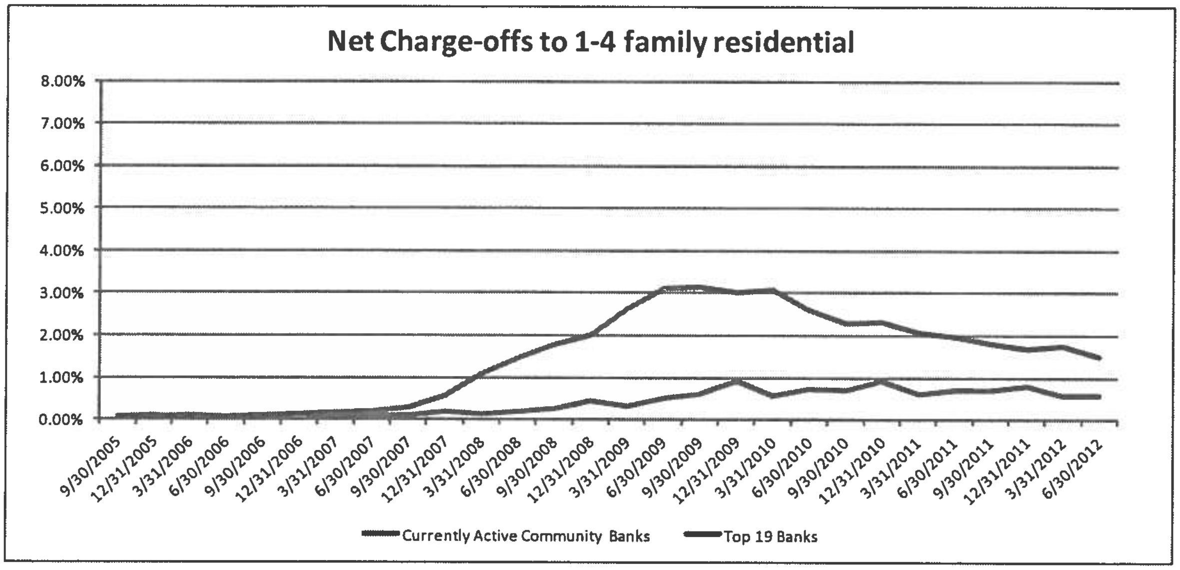
The difference in net charge-off experience was in the housing sector. The 19 largest banks took significantly more in net charge-offs on home equity loans than community banks.



Top 19 Banks---Max: 3.83% | Min: 0.10% | Average: 1.86%

Currently Active Community Banks---Max: 0.99% | Min: 0.04% | Average: 0.50%

Net charge-offs were also more significant on 1-4 family residential mortgages for the 19 largest banks.



Top 19 Banks---Max: 3.14% | Min: 0.07% | Average: 1.46%
Currently Active Community Banks---Max: 0.93% | Min: 0.05% | Average: 0.40%

From the level of net charge-offs experienced, the argument can be made that community banks had underwriting standards and risk management that were superior to the 19 largest banks. This also supports the argument that community banks should have different capital requirements than the 19 largest banks. Yet, the new capital proposals do not make this differentiation. The 19 largest banks have a totally different business model than community banks. The capital requirements should be geared to the risk of the business model for the financial institution.

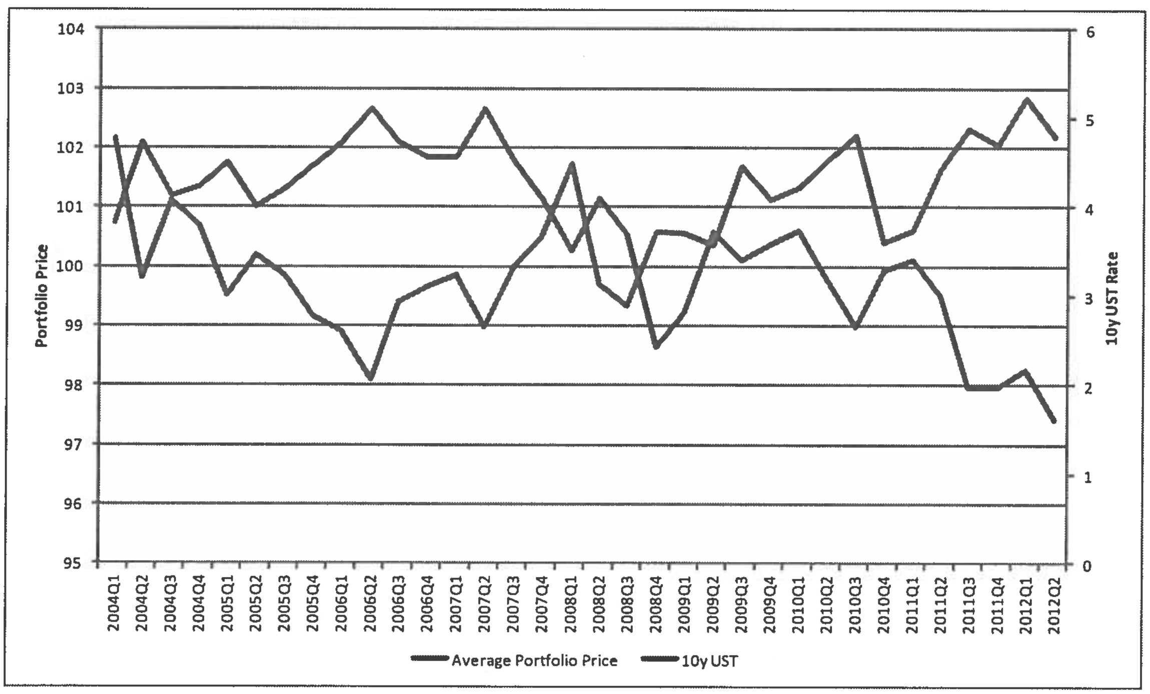
The Impact of Available-for-Sale (AFS) Gains or Losses on Tier 1 Capital

How can one area of the balance sheet have an impact on Tier 1 capital when the rest of the balance sheet is ignored? The proposed treatment of "comprehensive income" in the new capital proposals ignores how community banks balance their risk. In one sense, the regulators have focused directors and management on asset liability management. We are proponents of this focus. Directors and management have learned that interest rate risk on capital, earnings, and liquidity can be balanced in a way that is profitable and has less risk. The new capital proposals, however, ignore the approach of analyzing all assets and liabilities. The new capital proposals focus on the AFS investment portfolio for community banks.

For instance, the bank for which one of our principals is a director has more than 70% core deposits to total deposits. This bank has a very stable deposit base. The positive liability structure gives this bank flexibility within its investment portfolio. When the board of directors reviews this bank's asset liability model, the bank's risk is very balanced in a rising interest rate environment. Its economic value of equity (EVE) capital is very strong and very stable under shocks and interest rate simulations. If the new capital proposals are effectuated, this bank will not be balanced for Tier 1 capital and its board of directors will be forced to manage the investment portfolio in order to manage Tier 1 capital.

For community banks, this new capital proposal could reduce their central focus of making loans to members of their communities.

Sub Chapter S community banks have the additional impact of not being able to reduce the AFS portfolio losses with a deduction for taxes. If their AFS portfolio is at a loss, the entire loss is deducted from Tier 1 capital. Sub Chapter S community banks would be at a disadvantage to other community banks that are able to deduct the tax on any losses on the AFS portfolio. As one Sub Chapter S banker commented, "Our bank was well-capitalized before the capital proposals, now we are questioning if we are well-capitalized."



Source: SNL Financial LC and Bloomberg LP

The chart above illustrates the volatility of community bank AFS investments. The new capital proposal for community banks' Tier 1 capital ratios could be very volatile if interest rates change. While this is the case with equity to assets, the volatility has been confusing to the public. If the new capital proposals take effect, the public will be even more confused and may even question a bank's viability. This reputation risk could cause a "run on" deposits and a loss of customers.

The Impact of the Capital Proposals on Longer-Term Investments

Another risk presented by the proposed capital requirements is they could cause community banks to reduce their holdings of longer-term US Agency debt, US Agency mortgage-backed securities, and municipal bonds. As of the second quarter of 2012, community banks with assets up to $5 billion had the following holdings:

> US Agency Debt $375,546,812,000;
> US Agency mortgage backed securities $269,961,636,000; and
> Municipal bonds $114,907,661,000.

Community banks typically purchase the debt of the US Agencies. Community banks may be forced by the capital proposals to reduce or even eliminate the longer-term maturities. This would have the potential to negatively impact earnings. Potentially, the mortgage markets could be impacted because the US Agencies tend to pass on the higher cost of their debt, as well as increase mortgage rates and fees charged to consumers.

The community banking industry not only sells mortgages to the US Agencies, but purchases these securities for their investment portfolios. US Agency mortgage-backed securities tend to be longer-term investments with higher market volatility. Community banks may be forced by the capital proposals to reduce or even eliminate these holdings. This would have the potential to negatively impact earnings. As stated previously, there is also the potential that it could impact the mortgage markets and increase the mortgage rates charged to consumers.

Many community banks purchase bank-qualified tax-exempt municipal bonds. These bonds also tend to have longer maturities. Historically, bank-qualified municipal securities have a lower cost than general market municipal securities when issued. This saves small communities on the cost of building their schools, water systems, sewage systems, etc. Community banks purchase bank-qualified tax-exempt securities because the tax savings are inherent to bank-qualified municipal securities versus general market municipal securities. Community banks may be forced by the capital proposals to reduce or even eliminate these holdings. This would also have the potential of reducing their earnings. Moreover, there is also the possibility that the markets could be disrupted leading to a higher cost of debt for our nation's small municipalities.

What's more, community banks often purchase taxable municipal securities. Again, these bonds tend to have longer maturities. Community banks may be forced by the capital proposals to reduce or even eliminate these holdings with the potential of reducing their earnings. Likewise, the markets may be disrupted leading to a higher cost of debt for our nation's municipalities.

Alternate Capital Proposals

If the regulators consider alternate capital proposals, we respectfully request they consider creating capital requirements which are geared to the community bank business model. The community bank business model is very different than the money center bank, regional bank, or international bank business models.

Alternate capital proposals for community banks should focus on traditional, conservative community banking. There should be components that include *"community banking"* credit risk, liquidity risk and earnings at risk. National economic risk and state economic risk should also be considered. If a community bank chooses a business strategy that is an outlier to the traditional, conservative community bank business model, it should be required to have significantly higher levels of capital.

Whatever alternate capital proposal is pursued, regulators should consider eliminating the current minimum capital requirements. All of the failed banks met the minimum capital requirements at some point in time, but as their issues increased, they did not have enough capital to adequately cover their risks.

The central philosophy of an alternative capital proposal for community banks is to foster a wiser, conservative risk-management process at each community bank. If a community bank board understands that an increase in risk will mean additional capital will need to be raised, it may not agree to take on that additional risk or will pursue the riskier strategy in a different manner. For instance, there is a "myth" in the community banking industry that making more loans will create more earnings. There is no historical correlation to this strategy. Yet, if a board is faced with raising more capital for this strategy, it may come to the conclusion that the additional earnings and funding of the loan loss reserve will not create the expected return on capital. The point is, the analysis and discussion will result in a higher level of due diligence on behalf of the board of directors with capital being the motivating force.

The regulators should also consider working in concert with community bank directors, management, and outside experts. Considering that community banks contribute to the FDIC Fund, they should have a say in how that fund is protected.

<u>Alternate Capital Proposal 1</u>

EVE is an alternative capital calculation that is approved by the regulators but is not used for regulatory capital. EVE calculations are in place at all community banks. EVE values the entire balance sheet. Based on the type of balance sheets that the failed banks had, the failed banks would have had relatively low EVE ratios as a percentage of capital. On the other hand, conservative community banks with large-core deposit bases will have higher EVE ratios.

A minimum threshold for EVE ratios could be set. Liquidity risk and earnings at risk are currently stress tested by most asset liability models and could be incorporated into the EVE ratios. A separate test for credit risk could be utilized with the EVE ratio. This would involve a credit stress test of each community bank's loan mix. Once again, a minimum threshold could be set based on the impact of the stress tests.

Alternate Capital Proposal 2

Utilize an independent, third-party assessment of risk. An independent, third party could remove the onus between the regulator and the community banker by providing a risk model with known inputs and results. The model would also have proven back testing to determine how effective it is in predicting bank failures and significant issues with community banks.

Based on the risk assessment, community banks would be required to have minimum capital requirements based on their risk score. The risk score for each bank would be updated quarterly. Community banks and the regulators could monitor the risk scores. Since the inputs would be understood, community bank directors could do "what if" scenarios to determine their future risk scores based on their strategic plan. Actions could be taken to increase or decrease risk accordingly to meet targeted capital levels.

Regulators could monitor risk trends in each community bank, by region, by state, and on a national level.

As an example of an independent, third-party assessment of risk, the Seifried & Brew Total Risk Index ("S&B Risk Index") assesses capital risk, credit risk, earnings at risk, liquidity risk, national economic risk, and state economic risk. The S&B Risk Index gave early warning signs to the banks that failed during the Financial Crisis long before they failed. In 2009, the S&B Risk Index predicted 99.15% of community banks that failed in 2010. The S&B Risk Index accurately determined that these banks were operating with higher risk versus all community banks in the nation that weathered the storm. In fact, going even further back, the S&B Risk Index could predict:

In 2008, 91.4%,
In 2007, 86.4%,
In 2006, 81%, and
In 2005, 71.7%

of those banks that ultimately failed in 2010.

Of all the community banks that failed during the Financial Crisis, the S&B Risk Index predicted approximately 97.5% a year in advance, 90.2% two years in advance, 80.5% three years in advance, and 75% four years in advance! Using the S&B Risk Index would have given these banks insight long before the issues of higher risk resulted in the losses that eroded the banks into failure.

S&B believes that economic risk must be quantified by community banks and, as such, national and state economic risks are factored into the S&B Risk Index. One of the lessons learned from the Great Recession is the erosion of the economy was not consistent nationwide. For example, the Texas economy was relatively unaffected while one state away, in Arizona, the economic downturn was severe. Therefore, a community bank operating in Arizona had different issues than a similar bank operating in Texas. Because the S&B Risk Index incorporates both a national economic weighting as well as a state economic rating, it is a good predictor of risk to banks no matter where they are located. Neither the current minimum capital requirements nor the proposed capital requirements take the economic impact into consideration.

Alternate Capital Proposal 3

This alternate capital proposal is similar to the process that community banks perform in determining their Allowance for Loan and Lease Losses. This would allow each bank to perform an internal risk assessment and determine what level of capital would be required. Capital planning that is dynamic would help directors and management better understand risk.

The regulatory input, requirements and oversight of developing the ALLL has created a dynamic process and outcome. This could also be integral to community bank capital planning.

In our book *The Art of Capital Planning – The "How To" Guide,* we illustrate the features of a dynamic capital plan. An excerpt from the book is set forth below and on the following pages.

> **What will be the future capital position of the bank?** The answer to this question is driven by and connected to the strategic plan. The forward strategic planning model illustrates the dollar value of capital and all pertinent ratios projected out over time. Ideally, the strategic plan is projected out over a period of 10 years.
>
> **What are the minimum capital targets set by the board?** The minimum capital targets should correspond to the bank's capital policy.
>
> **What is the bank's credit risk**? The answer to this question includes an overview of the bank's historical and current credit performance. Comparisons to national and state peer groups should also be undertaken.
>
> **What happens to the capital plan when it is "credit shocked"?** The capital plan should be "credit shocked" under worst-case scenarios. The other exercise should be to determine what level of net charge-offs would result in the bank being undercapitalized.
>
> **What is the bank's economic value of equity (EVE)?** This review includes a breakdown of what drives the bank's EVE, such as the bank's level of cash-type deposits (checking, savings, and money market accounts).
>
> **What are the effects of interest rate shocks and interest rate simulations on capital?** To answer this question, EVE must not only be shocked +/- 400 basis points for regulatory purposes, but should also reflect the impact on EVE based on at least two yield curve simulations.
>
> **What are the bank's earnings at risk?** Though earnings at risk are a component of EVE, there should be a historical review of the bank's interest rate risk management to achieve a better understanding of earnings at risk.
>
> **What is the bank's liquidity risk?** The Great Recession has placed new emphasis on contingency liquidity planning and its relationship to capital strength. What is the impact of a liquidity shock on the bank? Will the bank have sufficient capital to survive a liquidity crisis?

What is the bank's risk to economic cycles? The Great Recession has been a reminder that national and regional economic trends will have an impact on the bank. How will economic change impact the bank's capital plan?

What is the bank's risk to concentrations? The results of failed banks revealed that concentration risk in construction and development loans and wholesale funding was a high risk. Will concentration risk require more capital?

What is the bank's dividend plan? When applicable, the dividend can impact capital over time. Will payment of a cash dividend cause the capital goals to be met or missed?

What is the impact of the bank's incentive plan on capital? Will the bank have sufficient capital to support the bank's incentive compensation program?

What event triggers will the board monitor? Internal and external events can impact a bank's capital. What events could impact the bank's capital and how will the board monitor the events?

Have you provided for a contingency capital plan? This plan should include all the methods and possibilities of increasing capital ratios or raising capital, including the amount of capital to be raised and the time necessary to effectuate the capital raise.

Alternative Capital Proposal 4

Under this proposal, we suggest keeping the current capital regulations the same. Currently, community banks with up to $5 billion in assets have an average Tier 1 capital ratio of 9.69% and a Total Risk-Based capital ratio of 15.49%. Many community bankers argue that this is more than sufficient capital.

We hold that segmenting the banking industry by size and exempting all banks under $5 billion dollars in assets from the new capital standard. The record from the recent past is very clear; the net charge-offs of the largest banks were much higher than those of the community banks. We argue that if the currently existing community banks had insufficient capital levels, the latest economic downturn would have most certainly exposed the deficiencies in the existing capital rules. By imposing the higher capital requirements on all banks, across the board, seems to us to be inappropriate. Further, the higher requirements could lead to the unintended consequence of significant attrition of community banks, with severe economic consequences to the communities they serve.

As in our other alternate capital proposals, we believe that community banks need dynamic risk-based capital requirements that will protect the community banking industry and the FDIC Fund.

Summary

The new capital proposals are not geared to the community banking industry. The community banking industry needs a risk-based capital system that will protect and nourish each individual community bank. Each community bank must have capital requirements that cover the risk tolerance of the board. Low-risk banks should be awarded with lower capital requirements. Higher risk banks should require more capital. However, the level of capital required cannot remain static; the requirements must be dynamic to support the level of risk taken on by a community bank either directly through its strategic plan or indirectly as a result of economic changes. The risks that need to be properly capitalized are credit risk, earnings at risk, liquidity risk, national economic risk and state economic risk. The new capital proposals do not address these issues.

Respectfully submitted,

Jay Brew, Co-Chairman
and Member
Seifried & Brew, LLC

Edmond J. Seifried

Edmond J. Seifried, Co-Chairman
and Member
Seifried & Brew, LLC

From: William Trezza
To: Regs.Comments
Subject: Subject: Basel III OCC Docket ID OCC-2012-0008,0009,and 0010
Date: Monday, October 22, 2012 2:59:06 PM

From: William Trezza
Sent: Monday, October 22, 2012 11:54 AM
To: 'comments@FDIC.gov'
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96,RIN 3064-AD97

Ladies and Gentlemen:

Thank you for the opportunity to comment on the proposed regulation commonly known as Basel III, which I will refer to as B3. This is a very complicated set of rules which were intended for the largest and most complex banking companies in the world. Imposing these rules on community banks in the U.S. is unwise, unproductive, and likely to produce significant negative consequences. Many institutions and individuals have aired public comments on this proposal including: Congressional members, the Conference of State Bank Supervisors, the Office of Economic and Cooperative Development, virtually all bank trade associations, the Comptroller of the Currency, and a member of the F.D.I.C. governing board. The common theme among them is that B3 is inappropriate for community banks and that a community bank model needs to be simple, understandable, and enforceable. Our executive management has reviewed the proposal and we strongly agree with this sentiment. B3, simply phrased is another example of "one size fits all regulation". I will summarize our comments below.

Complexity and Cost

-

The B3 proposal is extremely complex and requires significant levels of input and monitoring by bank management. There are numerous adjustments to be considered when assessing the bank's capital level. Additionally, there are dozens of buckets to which management must assign loan originations and renewals, as well as investment security transactions. This results in a never ending number of entries into these fields which require quarterly accounting and reconciliation. We process approximately 390 loan originations, and or renewals annually; in addition we have over 1,100 existing loans which would have to be categorized. We expect that number of originations to increase dramatically in 2-3 years as our Central Valley economy rebounds. We also process 80-90 investment transactions annually. We presume that the bank's CFO will own responsibility for maintaining this data base, and as such this creates a large and unwieldy flow of non-critical information to be transferred between lending operations and finance. We anticipate that on site examinations will include validation procedures, and like most other functions, banks will be required to contract independent 3rd parties to assess compliance. This level and type of activity, coupled with the degree of granularity required, creates unreasonable management and cost burdens.

Capital Buffer

-
B3 includes a phased in capital buffer which essentially creates a new minimum capital level. The regulators deny this; however there are regulatory remedies which effectively contradict this claim. B3 contains a provision which empowers regulators to curtail or cease bank dividends if the 2.5% additional buffer is not met. In addition there is no prohibition denying the regulators the power to halt corporate expansion (branches, etc.). For strong CAMEL rated banks this feature imposes unreasonable risk and burden.

Trust Preferred Securities

-
Many community banks and holding companies rely on this source (ratified in Dodd Frank) to maintain capital standards. B3 diminishes the value of these placements and puts the industry in jeopardy at a time when capital markets for community banks are not robust.

Sub Chapter S Banks

-
At the roll out meetings introducing B3, regulatory spokespeople made it clear that there was no exception of Sub S dividend payments for federal or state tax liability with regard to the 2.5% buffer test. This is discriminatory, and creates a public policy rift between Treasury and the federal banking agencies.

Allowance for Loan Losses (ALL)

-
B3 includes ALL in capital formulary, but it's limited to 1.25% of risk based assets. ALL methodology includes the impact of non- accruing loans; however under B3 non- accruing loans grade 150% risk weight. It seems logical that the full balance of the ALL should be included in the capital formula because the risk element is captured in both metrics.

All Other Comprehensive Income (AOCI)

-
B3 requires that the unrealized gain/loss on AFS Securities be added to or deducted from capital for adequacy measurement. In normal markets there are significant swings in portfolio values because of movements along the yield curve. This can create significant volatility in capital ratios which, unless the investments are sold, may never occur. If this feature of B3 is retained, management will be inclined to steer away from medium and long term investments which could significantly impact revenues. Community banks are not active derivative users and could be incented to reach for longer maturities and yields in the loan portfolio. These are negative unintended consequences which should be averted by retaining current capital treatment for AOCI.

Balloon Mortgage Loans

-
There have been many instances where we have granted home loans with 20+ year amortization

with 5 year maturities. In all cases these were loans which would not qualify for GSE standards because of the acreage or the owners' source of income. Prior to the housing crash there were private secondary market sources for these loans, they no longer exist. These are well underwritten loans with nominal or no delinquencies; however under B3 these loans are assigned a risk weight of 150%. This will create a strong disincentive to further grant these loans, or a pricing premium which would be very expensive for community bank customers. Both consequences have meaningful negative impact on the housing market.

We feel that B3 should not apply to community banks. We are not averse to having stronger capital standards, and feel that current risk based metrics have adequately served this purpose. It is clear that much of the revised asset risk designations reflect a reaction to the housing market meltdown. This was largely not a product of the community banks, although our markets suffered from the actions of a small sector of our industry. It is dubious that there is much public benefit to be derived. Using the B3 calculator our Leverage ratio increases by 4.5%, Tier 1 by 3.3% and Total Capital by 1.1%. These are clearly insignificant shifts which do not warrant the level of paperwork and management guidance required to maintain this program. It is difficult to define what the public benefit is because there is no transparency and no identifiable change with regard to community banks. We also suspect that regulators will spend considerably more time evaluating the accuracy of paperwork, rather than assessing the ongoing viability of community banks. We've researched the hours and paper work relative to the following functions; this includes policy formulation and revision, reports, and back testing where appropriate. This represents the time of our CFO and financial analyst(s).

Function	Hours (annual)	Paperwork (Qtly)
ALL	128	reports 33 pages...worksheets 250 pages
Interest Rate Risk (IRR)	240	reports 10-15 pages...excel files 150
Capital	50	10-15 pages
Liquidity	37	10-15 pages

We believe that the manpower and paper work burdens related to B3 will parallel those of IRR.

In conclusion, we strongly recommend that the federal banking regulators retreat from applying B3 to community banks. I reiterate the concept that the standards for community banks should be simple, equitable, understandable and enforceable. It would be much more productive and beneficial if legislators and regulators recognize that "one size fits all regulation" is not appropriate in our diverse and unique banking market. Thank you for your consideration in this matter.

William R. Trezza

Chief Executive Officer
Bank of Agriculture and Commerce

cc: Federal Reserve
Comptroller of the Currency
I.C.B.A.