F.N.B.C. OF LA GRANGE, INC.

January 17, 2006

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

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

Office of the Comptroller of the Currency
250 E Street, SW Mail Stop 1-5
Washington, DC 20219

Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

Subject - Joint Advanced Notice of Proposed Rulemaking: Risk-Based Capital Guidelines

Ladies and Gentlemen:

I am writing in response to your solicitation of public comment on the Joint Advanced Notice of Proposed Rulemaking ("ANPR") concerning proposed modifications to the existing Risk-Based Capital Guidelines for non-Basel II, or general banks. FNBC of LaGrange, Inc. is a multi-bank financial holding company that operates both a national and a state non-member bank in the Chicago area.

Given the high level of concern we share with other community banking organizations regarding the potentially far-reaching changes proposed under the Basel II accord, we believe in general the risk-based capital changes contemplated in this ANPR would help reduce the competitive inequities that are expected to arise when Basel II is implemented.

We also believe that, in the more fundamental area of aligning capital with risk, the proposed "Basel Ia" changes will constitute an improvement over the existing capital regulations.

However, there is one area within the existing capital regulations that is not specifically addressed in the ANPR where we believe there exists a significant disparate impact on

15 Salt Creek Lane, Suite 322, Hinsdale, IL 60521
630-455-6275 Fax 630-455-9136

general banks versus Basel II banks, as well as a serious misalignment of capital versus risk. This is in the area of identifiable intangible assets.

Unlike many other assets covered by both the existing and proposed capital requirements (where similar assets are carried by both Basel II and general banks), there are two identifiable intangible assets that, because of the scale economies inherent in the underlying lines of business, only Basel II-size banks commonly own. These are Purchased Mortgage Servicing Rights ("PMSRs") and Purchased Credit Card Relationships ("PCCRs"). In contrast, the only identifiable intangible asset commonly found among general banks is the Core Deposit Intangible asset ("CDI").

Under existing regulatory guidelines, the Basel II-type identifiable intangible assets are a) included in the calculation of tier-one equity, and b) assigned 100% risk weights. CDI is fully deducted from tier-one equity and therefore has no applicable risk-weighting.

Because of their full exclusion from tier-one equity banks which purchase CDI assets must finance their purchase with real economic capital on a dollar for dollar basis. Viewed from this perspective, the amount of economic capital that must be carried by CDI owners as compared to owners of PMSRs and PCCRs is substantial.

To illustrate, 100% risk-weighted assets like the Basel II-type identifiable intangible assets must have $0.06 of tier-one capital held against every $1.00 of asset carried. With CDI assets, banks must carry $1.00 of capital. Consequently, the amount of real shareholders' equity needed for the purchase of CDI is 1,667% the amount needed for the purchase of PMSR and PCCR assets.

As discussed in the ANPR, the federal regulatory agencies are proposing to recognize the risk-mitigating effects of contractual guarantees of assets secured from investment grade-rated third parties in the private sector. A specific concern of ours is that under these proposed rules, owners of PMSRs and PCCRs may be able to even further reduce the amount of economic capital required if a market for contractual guarantees from investment grade-rated private third parties develops for those assets. Furthermore, many PMSR and PCCR owners are likely to operate under the Basel II rules, where this or other risk-mitigating techniques might be used to further reduce the necessary capital held against these assets.

Our holding company already has been directly involved in developing and implementing the use of a similar contractual guarantee of a CDI asset secured from an investment grade-rated private third party. In our view, any proposed revision to existing capital standards that might result in capital relief for any intangible asset derived from this or other risk-mitigating techniques should apply to all identifiable intangible assets.

Doing so would be the most effective way to accomplish the two primary objectives of the ANPR – to eliminate potential competitive inequities between Basel II and general banks, and to more accurately align capital with risk. On the latter point, we believe maintaining the different capital treatment of the three identifiable intangible assets could

lead to a serious (and expanding) misallocation of capital with respect to the different levels of risk inherent in the three assets. Most informed industry participants would agree that a contractually protected CDI is not in need of 16.67 times the amount of equity risk cushion as non-protected PMSRs or PCCRs.[1]

It is also important to recognize that a change in the capital status of contractually protected CDI would not increase the maximum percentage of tier-one equity inclusion available to any bank for all identifiable intangible assets. Under existing guidelines, the total amount of available capital inclusion from such assets cannot exceed a specified percentage of total tier one equity. We presume this limitation would continue under the revised guidelines.

In conclusion, it is our belief that if the proposed rule changes do not encompass this particular area of the regulatory capital guidelines: 1) general banks will find themselves at a serious competitive disadvantage in financing the purchase of identifiable intangible assets, and 2) the allocation of capital in this asset category will have no bearing on the level of risk exposure exhibited across the different assets.

Thank you for your consideration of this matter.

Sincerely,

John R. Madden
Chairman

[1] This assumes that in each instance the identifiable intangible assets in question are marketable and capable of sale apart from the bank or the bulk of the bank's assets.