

**From:** Barry Hansen [<mailto:Hansen@thebankforme.com>]  
**Sent:** Monday, October 16, 2017 3:18 PM  
**To:** Regulatory Capital  
**Cc:** Sheila Mathews  
**Subject:** Proposed Simplification to the Capital Rule - ADC Loans

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I appreciate the opportunity to comment on the Notice of Proposed Rulemaking regarding Simplification to the Capital Rule as it relates to ADC loans.

First, the process that currently exists is to apply a 150% risk weighting to certain ADC loans, specifically loans that do not meet the criteria regarding cash investment upfront by the borrower. The process of identifying such loans is fairly simple, and does not require complex analysis or additional resources to complete. Also, this segmentation correctly includes ADC loans that *may* present higher risk in the event of default, in our opinion.

The proposed change is to apply a smaller risk weighting factor of 130%, however, to a much larger pool of loans, most of which historically represent very low risk profiles. In our case, the negative impact to our risk weighted assets, and therefore our Capital Ratios, is substantial. Applying these new “simplifications” to our last four quarterly Call Report data, shows an average increase of \$17.4 million to our risk weighted assets per period, or a 255% increase for this asset category. As we are a \$350 million community bank, we see no justification for this level of increase in this category of risk weighted assets.

We feel that applying a 30% excess percentage over 100% for an entire portfolio of this type does not represent an accurate estimate of risk level for ADC loans. Like most community banks, our actual losses on ADC loans have been very low, and do not warrant such a punitive risk factor.

In summary, we feel the current risk weighting methodology for this asset category should be maintained, as it is easy to calculate, and much more accurate in identifying *potential* risk for ADC loans. This proposed rulemaking change simplifies nothing in any substantive manner, while the negative impact to our bank’s Risk Weighted Assets and Capital Ratios is, simply, illogical and without justification.

Thank you for your consideration.

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