Riverside BANK

Riverside Mortgage

Member FDIC

August 24th, 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 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 represent a very efficient, profitable, 96 year old community bank with $55MM in assets that serves both middle income as well as distressed communities in Central and Southern Arkansas. One of our primary niches is providing sound and common sense home loans of many types to our Arkansas customers.

In particular, I am writing to express great dismay as to what my bank sees as many unintended consequences of the mortgage risk weighting proposals in Basel III for small community banks across the country.

Unlike the high flying Wall Street influenced big banks that exploited the mortgage business with complete disregard of common sense and blatant greed, the community banks in this country generally maintained best practices underwriting to provide home financing for local residents with solid principals that have spanned decades.

Let's take the example of Mrs. Taylor, a 70 year old widow and retiree who wants to move to Little Rock from Texas and buy a home to live in for just four (4) years to help raise her grandchildren while her daughter works to support her husband in engineering school. She has excellent credit, $1MM in retirement funds, and wants to put 15% down. Under Basel III, a four year balloon mortgage for her in this case would require TRIPLE the current capital requirements (50% to 150% weighting) simply because Mrs. Taylor did not want or need a 30 year mortgage, and the balloon feature providing the lowest rate disqualifies the loan from Category 1 under these rules.

1001 West Markham Street • 2nd Floor, West • Little Rock, Arkansas 72201 • (501) 614-6161 • Fax (501) 614-6162
www.riversidebanc.com

Or see the case of Dr. Cox, a new young medical school graduate from modest means but strong parental support who buys a starter home for his residency period of five years, with 10% down from a gift from his parents, and who has deferred student loan debt of $125k. Being disqualified from the secondary market for technical reasons (excessive DTI if imputing deferred debt, new on the job, low reserves but family support, etc), we offer Dr. Cox a six (6) year balloon mortgage since he plans to sell the home after the residency period. Either the balloon feature, or some misguided DTI calculation using future deferred student loan debt (when his income will be much larger) would also cause this loan to be a Category 2 loan with TRIPLE the current capital requirements.

Or consider the case of Mr. Daniel, a local farmer who wants to build a home on his 40 acres of land. The mere fact that his land exceeds 20 acres disqualifies him from the secondary market, so a loan from his local community bank is the only option. To properly reduce risk to long term rate changes, the bank offers a loan with a 30 year amortization, a 5 year maturity, and expects to renew this loan for successive 5 years terms if the loan performs as agreed. The consequences are the same as above.

We could provide a laundry list of other examples where solid mortgage loans would fall into this trap. These examples are typical of loans provided by small community banks that fill the void created by big-bank indifference to circumstances that are even slightly out of their box.

The Basel III proposal will severely dampen the options and increase the costs for these customers, the same everyday hard working customers that had nothing to do with the great mortgage recession that is influencing these new rules.

Even if increased capital is maintained to hold these types of quality mortgage loans, the operating costs to comply would unfairly burden small banks. Additional personnel, additional data processing, additional auditing requirements, and outsourced services would either impair earnings or increase the cost to the consumers, and likely do both.

We suggest that all of these risk-weighting rules, and those for residential mortgage loans in particular, not be applied to small community banks.

Respectfully,

RIVERSIDE BANK

Stephen C. Davis, CEO