



NEW MEXICO

FINANCIAL CORPORATION

P.O. BOX 511 • DEMING, NEW MEXICO 88031-0511 • 575-546-2691

RE: **Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D9**

When evaluating a solution it is always helpful to identify the problem, one would assume.

Most “community” banks operate on real 8-10%, or greater, tier 1 capital therefore dispelling any criticism of not having “skin in the game”. So the rub in the deal focuses on risk based capital, which really comes down to what types of loans, securities, and other investments do you have on your books and the true risk associated with those assets?

Speaking as a “community banker” identifying risk and setting proper mitigating measures in place has long been the survival tactic of our industry, for at least my nearly 30 year career. During normal, rational economic times, community banks operate under the common sense approach of knowing your customer and understanding investment risk taken with funding sources derived from core deposits and other stable funding mechanisms. This coupled with a real, tangible capital base, derived from shareholders investment and retained earnings, is utilized with great care and fiduciary responsibility.

Not to be blind to the fact that there were those “community banks” which failed to properly manage their risk either by abandoning common sense or taking on investment risk which they did not understand and as a result paid the price of failure, but also understand, that those of us who have stayed the course stood the loss of their failure alone and did not ask the taxpaying public to bear the cost.

This brings us to the distinction which needs to be clarified, who is considered a “community bank” and who is not? According to the FDIC if asset size is to be an indicator of what distinguishes a community bank from the “to big to fail big banks” then, anything smaller than \$1,000,000,000 (that’s one billion) would be considered an “ok to fail small bank”, commonly referred to as a community bank. Furthermore the proposals contained within BASEL III are intended for those financial institutions that operate internationally in foreign place like Basel, Switzerland with their products or equity structures, again not the “Community Bank” on Main Street, USA.

Community banks should be wholly and entirely excluded from the proposed rulemaking contained in BASEL III, as the solution should apply to the ones who

actually have the problem, and not create “unintended problems” to those who do not currently have a problem but surely will if not excluded.

In the event Basil III applies to the true community bank, the cost of capital would greatly escalate, sources of capital would diminish, and could conceivably drive a higher risk lending and investment environment in search of earnings to counter the unintended pressure for greater returns in order to accumulate and acquire capital.

Creating the need for unnecessary higher capital to asset ratios for the community banking sector will result in lines of business being driven to other financial service businesses, such as brokerage and credit unions, greatly diminishing local communities’ access to financing and capital.

Great danger exist within Basel III as it subjectively seeks to evaluate future risk in asset holdings, such as municipal bonds, utilizing a broad stroke approach, as regulation does by its nature, will jeopardize the current portfolios of sound community bank investments. Additional consequences will be felt by both urban and rural entities seeking access to capital funding from the municipal financing markets by the proposed risk analysis of Basel III.

The cost burden of regulatory compliance continues to erode the bottom line of community banks across our nation and, if allowed, Basel III will certainly accelerate this cost with onerous monitoring and analysis of our assets bases.

I implore you to consider the detrimental impact this proposed rulemaking will have on the community banking industry and the consequence to the communities and individuals we serve.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean Ormand", written over a white background.

Sean Ormand, President
First New Mexico Bank of Silver City
First New Mexico Financial Corporation