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October 19, 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

Dear 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, Office of the Comptroller and the Federal Deposit Insurance Corporation.

While there can be no disagreement that a strong and vibrant banking system is not just a goal, but a necessity to ensure our country's economic future, the management of First Alliance Bank have concerns about proposals which have been approved by the agencies and placed for comment.

First Alliance Bank was formed in 1999 as a denovo bank in the Memphis metropolitan area. The bank has grown to over $120 million in assets with four branches serving both Shelby and Fayette Counties in Tennessee. Of the eight original employees, four still remain today in our staff of thirty six. While we are primarily a business bank serving many small and medium size businesses, we also serve a large number of individuals of all means. Prior to the recent recession, our bank focused primarily on residential and commercial real estate lending and we were proud to help grow our community and the local economy. Like most true community banks, First Alliance Bank has not been a subprime lender and has never strayed from core banking principals and products.

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Also like most community banks, we want to ensure that we are able to continue serving our communities to the same or greater degree than we have in the past. The availability of bank capital to support lending to our local businesses and citizens is essential to regaining national economic strength. Strong local banks fuel strong local economies and create jobs. Any proposal that would limit the lending ability of community banks, such as ours, without a commensurate, offsetting gain, would slow or even possibly reverse our tenuous national economic recovery at a price we, respectfully, consider too high.

As a small community bank, only a few of the proposed changes affect us immediately. However, the impact to our bank, even of these few applicable changes, will be significant. The following items are of concern:

1. **Requirement that gains and losses on available for sale securities flow through regulatory capital**

   First Alliance Bank currently holds all its readably marketable investment securities as available for sale, primarily for purposes of liquidity and securitization. Security trades are few, but are considered when market conditions or the bank's needs in this area change. When buying a long term asset, flexibility to hold or repurpose the funds represented by the asset is very important, and the associated market risk is already reflected in the asset section of the bank's financial statements. Like most banks, we hold securities today at unprecedented gains due to current and prolonged low interest rates. Although initially this change would improve, or inflate, our bank's capital position, the duration of these assets will surely outlast our current low rate cycle. While nothing will have changed in the bank's equity position, a change to higher interest rates will dramatically and quickly eat away at the Basel III capital ratios for our bank. Unless capital markets change drastically from the last 5 years, it will be virtually impossible to replace this capital quickly or reliably.

   One quick, and the easiest, remedy for the situation of shrinking capital ratios would be to shrink the bank's balance sheet by discontinuing our loan efforts and correspondingly shrink deposits. This would likely occur as the national economy has shown some strong trends towards recovery and would prove to undermine those improvements at the worst possible time. Our small business customers would be impacted by the reduced availability of credit under this scenario. Depositors will be forced to seek services from other financial institutions and our bank's profit margin would suffer all in the name of managing capital based on market rates.

   To also be considered is the effect the proposed change will have on our bank's liquidity. Traditionally, we have held all securities as available for sale and that strategy served us well in the most recent recession. Conversely, if all, or a significant amount, of our securities had been classified as held to maturity in 2008 and after, our bank would have suffered a liquidity crisis of massive proportions and our financial situation today would be much less stable. As interest rates rise, the proposed rules would prove a disincentive to liquidity, increase cyclicality and volatility and would drastically limit our ability, and the ability of many other banks, to weather the next extreme economic storm.

2. **Increased risk weighting for residential mortgage loans**

Like most true community banks, First Alliance Bank is a conservative and knowledgeable lender with a century of combined real estate lending expertise amongst our staff. We contributed in no way to the national problems in this arena and have suffered greatly since 2008 for the sins of others who were not held to our high standards. The new capital proposal related to risk weighting of residential mortgages is higher in many cases than other loan types that would be considered by most bankers to by much riskier. The proposed standards, if placed into effect, would be a disincentive to further lending in this area, an area that promotes job growth and a healthy local economy.

In addition to our ability to lend, the change from assigning risk weights from asset classes to individual loans will create an administrative nightmare at our institution. To survive the recent recession, First Alliance Bank has trimmed costs in every possible area, including any identified excess staff. We currently do not have additional man hours to assign to either the task of assessing the risk individual loans at the time of origination or the ongoing continual reevaluation required during the life of the loan. Additional salary expense at this time in our bank's financial recovery cannot be supported and would necessitate a review of this product line or other product lines to compensate for additional costs to service our existing real estate loans.

We would also respectfully ask that an effort to assess the strain this change would place on the regulatory system be considered prior to enactment, as many exam hours would be needed to assess compliance in each bank examined. It is our concern that neither our bank nor our regulators will see a commensurate return on the massive time effort it will take to comply with this part of the proposal.

3. **Change in risk weighting for home equity and second lien loan**

Although not a major line of business for First Alliance Bank, home equity lines of credit and second lien loans are occasionally the most prudent way to provide secured loan products to our customers. For many of the reasons stated above, our bank would have to consider the new efforts required to book and maintain these credits before making new loans or renewing current loans. Our customers use these facilities for many purposes that not only include home improvement but also working capital for small businesses, purchase of personal assets and many other purposes that enhance job growth and provide for a strong community economy.

4. **Proposal to increase risk weights on delinquent loans**

   As previously stated, First Alliance Bank was drastically affected financially during the recent recession. Prior to 2008, the bank could boast that only a handful of loans made in the previous nine years had gone bad. Today we have two full time employees devoted to work-out and non performing assets. The Memphis metropolitan market currently has very little new home inventory as most builders have gone out of business and many construction workers, who supported the local rental housing market, have moved away. Our bank had a lending niche in both these areas prior to the recession and now has too much experience in handling delinquent, and charged off, credits.

   Past due loans are already accounted for in the calculation of allowance for loan loss. Under current rules, if a bank has reserved in excess or 1.25% of risk weighted assets, as has First Alliance Bank, no benefit to capital can be taken for the additional reserves. The proposed changes in this area would add a second layer of capital reserved for the same purpose. The risk related to problem loans should continue to be managed through the loan loss reserve guidance and not by adding an additional capital requirement.

   If enacted, this rule will create a disincentive for our bank to work with delinquent borrowers as we have in the past to find mutually beneficial solutions to credit problems. It is predictable that we will have to be more aggressive in moving loans that become 90 days past due off the balance sheet. Typically, this scenario is the most expensive for the bank.

In conclusion, the management of First Alliance Bank respectfully requests further review and a possible exemption of the Basel III proposed changes, especially as they pertain to community banks. If the recent economic troubles emphasize anything in the area of banking, it is that banking is not a "one size fits all" industry. Too big to fail banks and community banks may provide some similar loan and deposit products, but drastic differences characterize delivery systems, knowledge of local economies, knowledge of borrowers and concern for how internal business decisions affect the communities they serve.

While we all desire the strongest possible banking system for the United States, any proposal that will limit our bank's ability to safely deliver traditional products and services to our community, such as in the areas discussed above, will be counter productive and put our banking system at undue risk in future economic downturns.

Thank you for your consideration of our concerns.

Respectfully yours,

L. Hunt Campbell
President/
Chief Executive Officer

KaRe A. Walsh
Executive Vice President/
Chief Financial Officer