Asset Management Group, Inc.

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W. Washington, D.C. 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

RE: Basel III Comment

Ladies and Gentlemen:

Asset Management Group is a wholly owned subsidiary of Country Club Bank, Kansas City, MO and offers Asset Liability Reporting and Consulting to Community Banks throughout the Midwest and the country.

In our capacity as an advisor to more than 140 community banks, we see a variety of balance sheet structures. Our clients are primarily community banks that range in assets from less than $40MM to more than $2BLN. We thought it might be appropriate for this committee to have our input on how this proposed regulation will impact our clients. A response from our parent company, Country Club Bank will be made separately.

Requiring Unrealized Gains and Losses to flow through Capital; We Oppose.
There are two primary issues which we (and by extension, many of our clients) oppose. The first would be the inclusion of AFS gains and losses in the proposed Tier 1 calculation. This will have significant negative consequences, not just to each bank individually, but to the entire banking system. This one provision presents several problems for these banks that do not have the capacity to mark their entire balance sheets to market (or mark to model, as many of their larger brethren currently are able to do.)

This will have the unintended consequence of penalizing an institution that has conservatively managed their balance sheet risk through lower loan/deposit ratios and higher "on-balance sheet" liquidity.

Let's take an example of two $100MM community banks with 8.00% capital, both of which have AFS bond portfolios with a duration of 3.00 years and yields of 2.00%. If rates rise 300 basis points, the loss on each portfolio will be 8.262 points in market value.

BANK A has a loan deposit ratio of 85%, leaving 15% in their bond portfolio. The Capital implication to this bank should rates rise 300 basis points would be a loss of approximately ($1,239,328), reducing Common Equity Tier 1 Capital to 6,760,672 or 6.76% of assets, from 8.00%.
BANK B has a loan deposit ratio of 60%, leaving 40% in their bond portfolio. The capital loss to this bank should rates rise 300 basis points would be approximately (3,304,875), reducing Common Equity Tier 1

I'm sure it is not the intention of this rule change to incent banks to take on "riskier" loans (that will not be marked to market), and reduce "on balance sheet" liquidity, however, it appears as though that will indeed be the result, should this rule be adopted as proposed.
This argument is not that much different than the one we faced in 1993, as FAS115 was being debated. The majority of the value in the balance sheet of most community banking institutions lies in their ability to attract low-cost non maturity deposits. This is where the asset volatility many experience is offset, as these are typically much longer in duration, and have a more predictable interest expense course. To take the most volatile piece of the asset structure as a potential charge against capital presents an extremely inaccurate picture of the true risk the bank is assuming.

The argument is sometimes made that the banks does not have to designate these holdings as Available for Sale (AFS), they can designate them as Held to Maturity (HTM) and avoid this impact, but this presents several other problems which should be considered. For example:

Although the proposal is silent on this issue, we assume that a transfer of securities from AFS to HTM would allow us to capture any GAINS, and freeze them in the AOCI (Accumulated Other Comprehensive Income account), if so,

- Do we then AMORTIZE this gain to the Expected Maturity, or Final Maturity?
- If amortized to expected maturity, is this the expected maturity at the time of election, or will it change as the market changes? For example, a 1,000,000 Callable bond with a gain of 50,000, may presuppose a call date prior to maturity date, but if rates rise, this security could be "out of the money" and the expected maturity would then be the maturity date. Dow we then write off this AOCI adjustment to the original call date, or the original maturity date?

In making this election, are we not also influencing Liquidity as well, since these securities will no longer be available for sale prior to maturity?

What is likely to be the view from our regulators regarding "on balance sheet" liquidity?

- Will these requirements increase in the future as well?
- This one decision makes the consequences of making a mistake in classifying these asset more complex, and may be one that a bank may later regret, is there any foreseeable remedy to avoid "tainting the portfolio" in a move back from HTM to AFS at some later date?

We would ask that the inclusion of Unrealized Gains and Losses from the securities portfolio be dropped from this proposal, or at the very least, to eliminate the unrealized losses due to interest rate changes, keeping the impact to Common Equity Tier 1 of credit impairments.

Elimination of Trust Preferred from Capital; We Oppose.
The second issue is the exclusion of Trust Preferred from Tier 1 calculations, which we also oppose. If this Rule is adopted as proposed, what avenues will remain for community banks to access the capital markets? Although this market is no longer active, by excluding Trust Preferred already issued from the Capital calculation you will force many banks who have relied on this to either take on debt (assuming they can find a willing lender), find local investors, or sell to an institution that has more excess capital. We heard Chairman Bernanke suggest that most community banks were already well capitalized, and that is probably true, however, how many will still remain well capitalized with the elimination of their Trust Preferred from this calculation?

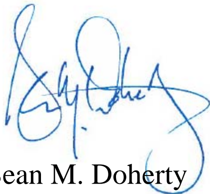
Using the Hypothetical Bank A above, if they were allowed to include Trust Preferred of up to 25% of leverage capital, they would have to find replacement capital of 2.0MM. Although we realize that this is phased in a 10% per year beginning in 2014, it will still require finding outside investors, or generating retained earnings in a like amount, in an environment where Chairman Bernanke has indicated Zero Interest Rates will continue at least through mid 2015. The shrinking Net Interest Margins we are seeing in many of our clients banks, as well as the duration drift in both loan and investment portfolios, will create significant headwinds to achieving this objective.
Many community banks felt as though they had "slain" this beast in the debate over Dodd-Frank, now we find that this rule will likely supersede the intentions of the Collins Amendment.

We would propose that this provision be removed from this NPR.

Ladies and gentlemen, and all the members of the committees considering the changes to this proposed rule, we would like to thank you for your effort, and commitment to implementing a rule that will be fair and correct for ALL members of the banking community. However, we would not disagree with FDIC Vice Chairman Thomas Hoenig's comment to an American Bankers conference on Friday September 14, that the "U.S. should reject the rules and rethink how capital standards for financial institutions are set."

Thank you again for your consideration of our comments. Please feel free to contact me at 800 226-1923 for any clarification of these comments, or if I can answer any questions.

Sincerely,



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