First Resource Bank

October 16, 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[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. As a director of a Community Bank which was formed to service the needs of local, small businesses, I earnestly submit the following comments concerning the Basel III proposal.

Community banks should be allowed to continue using the current Basel I framework for computing their capital requirements. Basel III was designed to apply to the largest, internationally active banks and not community banks. Community banks did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. As such, community banks weathered the economic crisis without the forceful foreclosure activity engaged in by the larger banks. Community banks were able to work with their borrowers to restructure the loans of local community business owners and consumers, which benefited both the banks and the communities they serve.

Community banks operate on a local relationship-based business model that is specifically designed to serve local businesses and individuals in their respective communities on a long-term

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

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basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. The largest banks operate purely on transaction volume and pay less attention to the customer relationship. This difference in banking models demonstrates the need to place tougher capital standards exclusively on the largest banks to better manage the ability to absorb losses.

The proposed risk weight framework under Basel III is complicated to manage and to regulate, and will be an onerous regulatory burden that will penalize community banks and jeopardize the housing market recovery. Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks who offer these loan products to their customers and will also deprive their customers of many financing options for residential property. For self-employed business owners that don't fit the increasingly standardized FNMA rules, a community bank is their only option for residential first mortgage financing. Community banks will be forced to originate only 15 or 30 year mortgages with durations that will make their balance sheets more sensitive to changes in long-term interest rates. Many community banks will exit the residential loan market entirely. Second liens will either become more expensive for borrowers or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures.

I urge you to please carefully reconsider the implementation of Basel III for small local community banks.

Sincerely,

Christopher Knauer
Board of Directors
First Resource Bank