FIRST NATIONAL
BANK OF THE ROCKIES®

fnbrockies.com
2452 HIGHWAY 6 AND 50
GRAND JUNCTION
COLORADO 81505-1108
970-242-2255
FAX 970-242-7722

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Delivered via email regs.comments@federalreserve.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Delivered via email comments@FDIC.gov

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219
Delivered via email regs.comments@occ.treas.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals 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").

This comment letter is a follow-up to our Bank's initial comment letter dated September 5, 2012.

Chartered in 1904, First National Bank of the Rockies (FNBR) is a $335,000,000.00 community bank with 10 offices in 7 northwestern Colorado communities from Grand Junction to Steamboat Springs. Our more rural communities are Meeker, Rangely, Craig, Hayden, and Oak Creek. FNBR takes its role as a community bank seriously, lending to members of our communities in all types of businesses located in our markets. Most of the small businesses are "Mom and Pop" type businesses ranging from energy service companies to sheep and cattle ranching. Construction and development lending took a steep decline during the recent economic debacle. Deleveraging has impacted our loan-to-deposit ratio and we find loan demand to be very benign due to the current economic climate.

We wish to emphasize several points made in our initial letter.

First, the recognition of unrealized gains and losses on available for sale securities reported through OCI will have very substantial and volatile affects on capital.

Second, the first line of defense against loan losses of all types is the ALLL. Bank managements and boards of directors are held to a very high standard in establishing and maintaining an adequate capital buffer (all of which cannot be counted as capital) in the ALLL. Bank managements who do not adequately provide and maintain appropriate levels of protection in the ALLL are severely criticized and held accountable by their regulator. Inappropriate levels of the ALLL are not tolerated by the U.S. banking regulators. The proposed risk weightings on real estate loans will cause a redundant capital requirement on loans secured by certain types of real estate.

Third, we are being told that most community banks will be found to be well capitalized if Basel III were in effect. For now this may be true. However, looking forward as the economy improves community banks will experience more loan demand. The majority of community bank loans are secured by real estate. And an improving economy will certainly bring about higher interest rates. As this occurs Basel III will impose severe constraints on capital given the risk weightings on real estate loans and the mark on capital as rising interest rates cause the recognition of unrealized losses to be marked against capital through OCI.

Lastly, community banks will find it extremely difficult to model the future effects on capital caused by the implementation of Basel III. Sophisticated models likely will be expensive to acquire and maintain. Even if community banks find an affordable model, the ongoing management and monitoring the model will present another time consuming and expensive regulatory burden. And even assuming that community banks find affordable and workable models, what can they do other than hold more and more capital to offset the effects cited above? Return on capital is the only motive for investors to provide capital. Requiring more and more capital will lessen the return on capital making it more difficult for community banks to attract capital to support lending and growth in an environment where attracting capital is already difficult. Community banks are the main providers of loans to small business where the majority of job creation occurs. Basel III is simply not appropriate nor will it be workable for community banks. We strongly urge you to reconsider your position and allow community banks to continue to be held to the capital requirements of Basel I which has served the majority of community banks very well.

Sincerely,

Peter Y. Waller
Chairman, President and CEO
First National Bank of the Rockies and
FNBR Holding Corporation

cc/
The Honorable Michael Bennet
c/o Brian Appel brian_appel@bennet.senate.gov
The Honorable Mark Udall
c/o Adam Jones Adam_Jones@MarkUdall.senate.gov

The Honorable Scott Tipton
c/o Nicholas Zupancic nicholas.zupancic@mail.house.gov