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October 22, 2012

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Delivered via email: regs.comments@occ.treas.gov

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

This letter is in response to the proposed Basel III Notices of Proposed Rulemaking issued in June 2012. Although I support higher capital levels for all financial institutions I have a number of concerns about the method and complexity Basel III uses to get to higher capital.

Chartered in 1915, Southwest National Bank is a $450 million community bank with 7 locations in Wichita, Kansas. We provide financing for more automobiles than anyone else in Kansas except the captives, such as Ford Motor Credit. We also have a strong commercial real estate portfolio. Through the economic downturn we had the good fortune to not suffer any losses in the commercial real estate portfolio. We maintain our bank above the well capitalized level, yet not much in excess of that in order to maximize the return for our shareholders while supporting continued growth. Our capital source is retention of earnings as we are owned by a family that does not wish to dilute their ownership by bringing in other investors.

We pride ourselves on our ability to serve our community. I have concerns that part of this proposal will hinder our ability to continue to lend to our community. It will also change our ability to invest in our local community. And it will reduce shareholder desire to continue to invest in our bank.

The portion of the proposal that I am most alarmed by is the inclusion of gains and losses on available-for-sale debt securities in the common equity tier 1 calculation. Currently our bond portfolio is $103 million mostly highly liquid, excellent quality government instruments. We are in an interest rate environment where the rates are being held artificially low. A 3% increase in rates eliminates a year and a half of our earnings for an **unrealized** loss. It would take our total risk-based capital from 11.7% down to 8.5%. Unrealized losses should absolutely be unable to affect a bank's capital position until sold and should not affect capital until that action is taken. AFS is not the same as a trading account. In the twelve years that I have been at the bank we have never sold a security before maturity. Keeping securities in the AFS category helps us to better manage liquidity and IRR.

I have several very large depositors who are keeping their money at our bank as a flight to safety. If the AFS mark to market proposal passes as proposed, I will likely ask the depositors to take their money elsewhere and move the portfolio to held to maturity. This is not good for my customers, reduces my ability to lend when the opportunities arise and limits my ability to manage liquidity and IRR. Just today, I decided not to purchase a local municipal bond because it appears it will definitely be included in the mark to market rule. At this point in the interest rate cycle this is too large a risk for our bank. Our community needs banks to purchase their bank qualified general obligation bonds to fund our city's needs, but I feel the risk to our bank is too large at this time.

As rates increase, we will be forced to reduce the size of our balance sheet. We will be unable to lend just as the economy is growing. This will undermine our ability to lend to our small business customers and their owners. Most of our lending is to those customers too small for the big banks to find desirable. This will cripple the ability for those small businesses to gain access to credit.

The 300% risk weighting on equity securities is punitive and defies logic. How can we lose more than 100 percent of the book value?

In summary, the proposal to include gains and losses on available-for-sale debt securities in the common equity tier 1 calculation affects every vanilla community bank in America. It will result in excessive volatility in our capital accounts which is directly opposite of what is good for our banks and communities. It will reduce liquidity which is exactly the opposite action one would desire in a crisis. It will completely affect what securities are held and investments made. And finally, Asset Liability management will be much more difficult. I strongly recommend this proposal be abandoned for community banks of all sizes.

My second concern is the risk rating change on delinquent loans. This increased risk is already accounted for in the Allowance for Loan and Lease Loss (ALLL) analysis. This would be double counting the risk. Also, we have a large portfolio of auto loans. Currently $466 thousand are past due more than 90 days or on nonaccrual. Ninety percent of these are people in bankruptcy with a payment plan administered through the court. The legal wheels do move slow and account for the delinquency, but the payment ability and collectability remains strong.

Raising the risk rates on commercial real estate loans has the same weakness as that on delinquent loans. The risk is addressed in the ALLL. Again, addressing the risk in capital will be double counting the risk. If the ALLL is reasonable, the risk has been adequately addressed. The regulators have focused on fine-tuning the ALLL for decades.

My third concern relates to the risk rating on second mortgage positions. We routinely shore up our collateral position on small businesses by taking a 2nd mortgage on the owners home. I rarely control the 1st position. The proposal now requires a 200% risk weight. Why would you penalize the bank for improving its position? We will likely make riskier loans because we will be unable to afford the higher risk category by taking a second mortgage to make our loan lower risk. It will be too expensive.

The proposed rules regarding residential mortgages combined with CFPB new rules make it unlikely for us to make any residential loans. Our small business customers are feeling the impact of the financial collapse and new rules by having difficulty getting traditional financing. I'd like very much to fill that gap and loan to them. It seems they do not fit the current mold that salary income does. I cannot keep 15 and 30 year fixed loans on my books because of interest rate risk. Requiring higher risk rating of ARMs will require more capital and thus increase the cost of borrowing for those small business owners that are helping us to grow the economy during times of stress.

Also, changing risk rating from asset classes to individual loans will be administratively very difficult and time consuming. It will not be a one-time analysis either. Every loan will need to be continually re-evaluated based upon changes in collateral values, past due status and other risk factors. The cost to maintain this will be high for a community bank.

We do a lot of home equity lending for consumers. The risk weights of up to 200 percent will increase the cost of credit to the consumer and will limit the amount of those loans that we will do.

I propose you consider a safe harbor from Basel III for well capitalized, vanilla community banks. This will eliminate the burdensome internal processes for assessing capital. As part of that safe harbor, I request you define substantially above minimums.

In conclusion, this proposal is bad for community banks, and it is bad for small and rural communities. It will make loans more difficult to get and more expensive. It adds an unneeded degree of complexity. I think the industry is backing increased capital amounts, but please do not apply this complex, expensive and in many cases ineffective rule to our industry. It will harm our economic recovery. I fear it will certainly lead to many small banks giving up.

Sincerely,

Trish Minard

Trish Minard
President/CEO

CC: Senator Pat Roberts via email
Senator Jerry Moran via email
Representative Tim Huelskamp via email
Representative Mike Pompeo via email