first financial bank

Another step on the path to success

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
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Washington, D.C. 20551
regs.comments@federalreserve.gov

Office of the Comptroller of Office of the Currency
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Mail Stop 2-3
Washington, D.C. 20219
regs.comments@occ.treas.gov

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to comment on the proposed Basel III Notices of Proposed Rulemaking ("NPR") issued in June 2012 requiring all banking organizations to comply with Basel III pronouncements and standardized approach NPR. While we are certainly in favor improving the capital strength of banking organizations, as well as the industry at large, we do have concerns about certain components of the NPRs.

First Financial Bank, N.A. ("Bank") is a wholly owned subsidiary of First Financial Bancorp., a publicly-traded bank holding company. Founded in 1863, we operate in Cincinnati, Ohio with $6.3 billion in total assets and have 129 locations in Ohio, Indiana and Kentucky. We focus primarily on serving the needs of middle market businesses and consumers with a personalized, community bank approach. At June 30, 2012, Bank's Tier 1 and Total Capital ratios were in excess of 14% and 15%, respectively.

Specifically we would like to comment on the following NPRs:

1. **Unrealized Losses on Available-for-Sale Securities**

This provision of the NPR is to include or recognize in Common Equity Tier 1 capital unrealized gains and losses on all available-for-sale ("AFS") investment securities, both debt and equity. We believe that the current regulatory capital treatment for unrealized gains and losses on AFS securities is appropriate and through their exclusion the Agencies already recognize the flaw in introducing substantial volatility to regulatory capital ratios from temporary changes in the market value of certain securities.

Our investment strategy has been centered on avoiding credit exposure in the portfolio and, as such, is primarily focused on agency mortgage-backed securities and other government sponsored issuers. The unrealized gains or losses in our portfolio primarily reflect the impact from changing or anticipated market interest rates. Any credit risk in the portfolio, if considered permanent in nature, would already be accounted for in equity through generally accepted accounting principles and the recognition of other-than-temporary impairment.

As of June 30, 2012, First Financial Bank had approximately $18 million of unrealized gains associated with its AFS securities portfolio. This represents approximately 2.5% of the portfolio's $707 million amortized cost and, if included in the Bank's Total Capital, would add approximately 48 basis points to the ratio. While the inclusion of the unrealized gains would currently be additive in nature, we believe, whether positive or negative, it would be inappropriate and not reflective of the Bank's actual risk or its value.

Additionally, if the intent of the proposal is to capture interest rate risk in capital, this is an incomplete approach as the fair value of a relatively small portion of our balance sheet would be included and virtually none of our liabilities. The ability to manage our regulatory capital ratios in a risk appropriate manner would also be significantly impaired as even minor fluctuations in market interest rates and/or forward looking yield curves could cause quarter-to-quarter volatility.

2. **Residential Mortgage Loans**

Perhaps the proposal that will have the widest impact is the new treatment for first mortgages. As released, the regulation will qualify each loan into one of six categories based on perceived risk and Loan-to-Value ("LTV"). The proposal then assigns a different risk weighting to each loan, with some residential mortgages requiring a risk weighting of as much as 200 percent. It does not recognize private mortgage insurance ("PMI"), and as described below, penalizes banks for working with customers and modifying loans outside of government sponsored programs by shifting them to a higher risk category.

HELOC loans as a product are placed in the 200 percent risk weight category, and a bank that holds both the first and second mortgage will "taint" the underlying first mortgage, assigning it to a higher category unless the entire combined loan can qualify as a tier one risk.

As a practical matter, residential mortgage loans to marginal credit risks will become more expensive as a result of the required additional capital, or in some cases, will not even be made.

The proposal also seems to ignore the traditional accounting method of dealing with delinquent loans and the expected escalating risk of loss through the allowance for loan loss. Increased capital charges, coupled with traditional allowance methodologies, effectively "double-counts" the risk of loss.

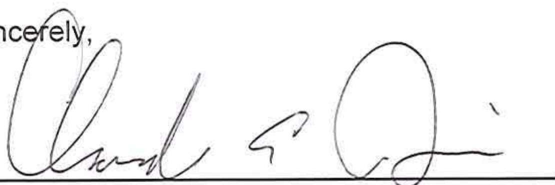
Punitive capital charges strike at the heart of the community banking model and existing accounting rules. This will have unintended adverse consequences for the economy and for banking.

There are several other components of the proposal, any one of which would have a negative impact on the residential mortgage loan market but taken collectively will certainly result in reducing the formation of credit and the exiting of the mortgage finance business by financial institutions of all sizes. These components relate to (1) risk-based capital requirements for routine and accepted representations and warranties for loans sold into the secondary market, (2) deductions from regulatory capital for the value of mortgage servicing rights, and (3) the requirement that securitizers of non-qualified, non-agency residential mortgage loans retain 5% interest in such securitizations.

The adoption of these components will result in an uncompetitive landscape characterized by only a few large institutions, with home financing products priced to the consumer in that context. Again, reduced competition, higher pricing on fewer product offerings and significant negative impact on home ownership in general will be the result.

We do appreciate the opportunity to comment and be a part of the regulatory process for such a comprehensive set of proposals. These are difficult economic times. We believe we are an institution that has always executed its business strategy in a responsible fashion, as evidenced by the fact we entered and exited the recession in strong financial health. We are anxious to meet the financial needs of both commercial and consumer clients, serve our communities in a responsible way and provide a risk appropriate return to our shareholders. These proposals will undoubtedly inhibit our ability to execute on these goals and we appreciate your reconsideration of their implications.

Sincerely,



Claude E. Davis
President and CEO
First Financial Bank, N.A.