



Inland Northwest Bank

October 19, 2012

Robert E. Feldman, Executive Secretary
ATTN: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, D.C. 20429

Re: Basel III Capital Proposals

Dear Mr. Feldman,

I will get right to the points in the Basel III proposals that will directly impact Inland Northwest Bank's ability to provide credit to community-based businesses in our market.

1. If we are required to run the unrealized gains and losses through our income statement, when interest rates begin to rise, our current \$2.6 million in gains will quickly turn to losses. Our calculations indicated that a 200 basis point rise in rates would cause that unrealized gain to become a \$3.0 million loss. And a 300 basis point rise in rates would turn it into a \$6.2 million loss. At Inland Northwest Bank (INB) we are struggling to get out from under an informal agreement that limits our growth. We are just beginning to once again show a profit. If we start showing a loss because of the unrealized gains turning to losses, we will never get out from under the informal agreement.

We have had a number of small business owners come to us saying their megabank has turned them over to their Special Assets departments and basically they are being asked to leave. In most cases these are good local businesses that have hit a rough patch due to the Great Recession. We review their financial position, visit their businesses, and usually conclude that they are an acceptable credit risk. But often we decide not to make the loan because of that Memorandum of Understanding we are operating under. We don't want to take the risk that the credit will get downgraded at the next exam, so we decline the loan and the business then is stymied. They can't grow and often they must lay off workers to cut expenses.

If our income statement suffers due to having to run unrealized losses through it, then it could be a long time before we are in a position to really help the businesses that don't fit in the "box" of the megabanks and who are the ones needing the most help right now.

2. Another key issue for INB has to do with second mortgages on residences. Many small business owners only qualify for a business line of credit because they grant the bank a second on their home. Or many times we will take a second as an abundance of caution and to ensure the owner's spouse is also fully committed to the success of the business. Changing the risk weighting on this type of loan, when we don't hold the first mortgage, would have a significant

negative impact on our willingness to make loans to small businesses that are in early stages of development or generally don't yet offer much in the way of business assets to collateralize their loans.

3. Similarly, we frequently offer second mortgages to help people qualify for better rates and terms on first mortgages and to help them avoid paying for private mortgage insurance. Under the proposed capital rules, we would likely discontinue this practice because the loans would carry a higher risk rating if the loan-to-value goes over 80% or we don't retain the first mortgage. This will have an adverse impact on people's ability to buy homes.
4. I don't know why the Allowance for Loan and Lease Losses (ALLL) is capped at 1.25% for Tier 2 Capital purposes. That's an outdated level in my opinion. INB is currently running its ALLL at 2.20% and our UBPR peer group is averaging 1.87%. Keeping the 1.25% cap tends to encourage banks to drive their ALLL down to that level when most people would agree that a higher ALLL is better. Why not give banks full credit for Tier 2 capital purposes for everything in their ALLL?
5. I am concerned about the administrative burden that will be placed on INB and other small community banks with respect to keeping the risk ratings on each individual loan current with all the new criteria and exceptions provided in the proposed new rules. I could see this requiring the addition of 1 FTE employee in our Credit Administration Department to comply with this area.

Thank you for your consideration.

Sincerely,



Randall L. Fewel
President & CEO