April 5, 2007

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: Risk-Based Capital Guidelines, Capital Adequacy Guidelines, Capital Maintenance and Domestic Capital Modifications (R-1238)

Dear Mr. Feldman:

Fremont Bank appreciates this opportunity to comment on the proposed regulations concerning the implementation of the Basel 1A capital rules for banks. Fremont Bank is a state chartered community bank operating through 24 branches in the greater Bay Area of Northern California. Fremont Bank has approximately $1.9 billion in assets.

General

First we would like to say that it was appropriate to maintain the existing risk based capital rules for all banks. We also feel that the bank supervisory and examination process, and the current risk based and leverage capital rules, have served the public and the banking system in the United States well in ensuring that banks are adequately capitalized.

We are a non-Basel II bank and our overarching concern in the proposed modifications at this time is in the profound shift that is taking place by the federal agencies in their adoption of a new broad principle that creates inequality in the risk-based capital requirements between large and small federally insured banks. Given comparable expertise, cost of funds and overhead expenses, the capital advantage to one bank group over another bank group would be critical in product pricing and obtaining a viable market share. With the capital rules being proposed, the eleven Basel II core banks would have more beneficial pricing for risk and the ability to pick and choose their best options while constraining smaller banks. That could have the effect of pricing the Community Banks out of their local markets. This would obviously be an unacceptable outcome for Community Banks and their customers who may not want to do business with larger banks.

The inequities in competitive advantage can be seen as an attempt to allow the larger banks to monopolize the "banking industry" resulting in fewer choices and higher prices for all customers. In particular, moderate and low income customers may find themselves without access to not only affordable credit but to all banking products.

Further, the breath of difference in the risk based capital requirements and the afforded advantage does not seem to reflect the historical performance in large and small bank portfolios and the subsequent need for additional capital.

Basel IA

The Opt-In entirety of the requirements for meeting the capital rules under the Basel IA proposal is questionable, as implementing all of the requirements would have the effect of removing the ability of banks to service their customers and manage risk particular to its unique market or trade

areas. Basel IA would also exacerbate the competitively unhealthy lack of a balanced playing field that occurs when Basel II federally insured banks have one set of capital rules and the other approximately 8000 federally insured banks have one of two additional sets of capital rules. Compounding this problem is the proposal to allow Basel II banks to calculate their risk based capital requirements using methods other than Internal Ratings Based and Advanced Measurement Approach.

Increasing the number of risk weight categories is appropriate, and the addition of a 10% risk weight category is appropriate for the risk sensitivity in first lien mortgages.

From an historical performance and credit quality perspective retaining the stated 20% risk weight for exposures issued by Government-Sponsored Agencies is not appropriate. There is little or no evidence of loss on GSE related obligations to support the 20% weight, and we recommend that a 10% rate is more appropriate.

There is no proposal for small loans to businesses. The NPR indicates that a risk weight of 75% is an option that is being explored. Additional risk weights for small loans to businesses should also be explored.

There are no risk weight changes for multifamily and commercial real estate loans. Increasing the number of risk weight categories for multifamily loans, using LTV and credit worthiness factors, would be appropriate.

Citing our own experience of no losses on multifamily loans over the past 15 years change to a 20% weight for multifamily loans of 20 units or less would be more representative of their risk based upon historical performance.

We believe that the 75% risk weight for a stand alone second behind an existing, performing first at another institution is excessive relative to the actual risk.

Given the historical direction of interest rates for new firsts, the blended rate for existing firsts and new seconds mortgage rates is likely lower than for new first mortgages alone. This rate difference and consequent difference in payment risk works toward mitigating any difference in risk regardless who originates the second.

The proposed risk weight for new firsts with LTVs equal or less than 60% is 20%. We recommend that stand alone seconds be given the same risk weights as available to new firsts in those cases where the CLTVs for the firsts and seconds are 60% or less and borrowers have excellent credit histories as evidenced by higher FICO scores.

We also recommend that seconds behind a service retained first sold into the secondary market be given the same risk weights as available to new firsts as noted above. The sold first deed loans are originated under Secondary Market criteria and standards evidencing an acceptable level of risk at origination and are serviced by the holder of the 2nd mitigating Operational and Collection Risk. As such the risk of default on these seconds is no less than the risk for firsts and seconds originated and retained by the same bank.

We believe that the way risk is recognized and mitigated is a dynamic process and what might be appropriate today may at some latter day be wholly inappropriate. We are concerned that reacting to current conditions and economic factors should not be the sole tool to mange risk by regulation. That while the process involves currently relevant facts, historical precedent and future projections regarding economic conditions and factors must also be part of risk management. Regulating to a current worst case scenario seems as inappropriate as not reacting to systemic weaknesses at all.

Closing

At this time we do not think that the final rule for Basel IA as stated should be adopted. This belief is in part due to the many questions that have risen and the need for further input on small loans to businesses, multifamily and commercial real estate loans, and the rules governing the use of credit worthiness factors. We would be in favor of the Agencies conducting a study to further understand the effects of the proposed revisions. It is also due to the open question of what will happen between the alternative Advanced and Standardized approaches for Basel II core banks.

Again, thank you for the opportunity to submit comments on these most important regulatory capital issues.

Sincerely,

Bradford L. Anderson
President & CEO