From: Doug Simson, President
First City Bank
1885 Northwest Blvd.
Columbus, OH 43212

To: Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E. Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219

Robert E. Feldman, Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

I appreciate the opportunity to comment on the Basel III proposal. I own First City Bank in Columbus, Ohio. The bank has about $60 million in assets and $45 million in loans. Our lending portfolio consists primarily of commercial real estate loans. The bank underwrites the loans with great care and manages them carefully and diligently. Even with the extreme real estate market in the last decade, the bank has not had a foreclosure since 2001. We do have an occasional problem loan but we work fairly and creatively to solve whatever problems occur. This success is made possible by establishing and maintaining excellent relationships with our borrowers. We do have a few losses but the bank minimizes the amounts by encouraging borrowers to first sell the properties and then divide the shortages in an appropriate way, according to their financial resources. The bank has had loan loses averaging only 77,000 per year over the past ten years which is .0017% of average loan balances. Our Capital and Reserves has grown from just over 3,000,000 in 2000 to $7,200,000 today.

If Basel III had been enacted in 2000, the effect would have been disastrous for First City Bank's future. The bank's capital ratios would have been well below the proposed cushioned Basel III levels for all of the past 12 years, although the current capital level would meet the standard. (An exhibit showing the capital levels and ratios as well as loan performance is included.) The bank has been successful in finding quality real estate credits by restricting lending during years when the risk is high and expanding lending when conditions are favorable. For example, the bank restricted lending during 2010-2012 when real estate was overpriced, but expanded in 2002-2006, when it has found quality loans. Assets and the balance sheet do not grow in a smooth pattern. Our capital ratios decrease to Basel III unacceptable levels during growth cycles, but return to solid levels as earnings continue. The current Basel I guidelines give the bank the flexibility to manage growth and consolidation according to prudent market opportunities. The bank has proven to be successful during the worst real estate conditions by using judicious management. For a small community bank like us, the high and unnecessary Basel III capital standards would have made it imprudent to grow in the favorable years, and severely limited the bank's ability to lend to the Columbus community. Instead of strengthening the bank, the opposite effect of reducing earnings by restricting quality loan assets would have resulted.

A community bank is a small business that needs excellent management and flexibility to be successful. A community bank might need a high capital level if it were engaging in a high risk and high return strategy. By design, this bank operates with a very low risk tolerance, using intensive hands-on management. First City Bank requires only a moderate capital level to remain safe. With Basel I, prudent community banks can choose a strategy and capital level appropriate for their risk tolerance. Risk and return are always paired, so for a low-risk bank like us, the return will be on the low side compared to that of peers. The lower return is acceptable to owners given the low risk. If we were required to have even more capital, the bank's return on equity would be lowered since earnings would not be effected. There is a risk/return level for any business, where the return level is insufficient for the owners, and prudent owners will exit the industry. This level of return is further diminished by increasing regulatory costs especially impacting small banks like us. In my opinion, 8%-9% (including the cushion) is a safe capital level needed to give owners an adequate return and protect community banks stability. A 10 ½% capital level will deleverage balance sheets and lower return on equity to such an extent that many community banks could be forced to exit. I think community banks are an essential engine to drive jobs, local business, and the economy. The country is having a difficult time growing jobs, even with community banks doing their part, but reducing their numbers and effectiveness is certain to be detrimental to the economy in the long-run.

First City Bank needs the flexibility to grow when the market opportunities exist. There is often a few years window of growth where the capital level will decline followed by years of stabilization when capital will grow. The bank being sub-chapter S needs the ability to pay its owners dividends to cover their tax liabilities every year independent of the capital ratio that year.

The new policies, if enacted, would challenge our ability to compete. I believe we would still find a way to be successful but many other banks would not be able to survive.

First City Bank has proven its ability to manage its business successfully for over a decade of very challenging circumstances under the current regulatory statutes. I hope this environment will continue so that prudent well-managed banks can continue to serve their communities well.