First Resource Bank

October 16, 2012

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, SW
Mail Stop 2-3
Washington, DC 20219

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

First Resource Bank is a $145 million, one branch, community bank in suburban Philadelphia that opened in 2005. We opened First Resource Bank to fill a need in our community where big banks had little interest in small business loans. We operate a traditional community bank model with a focus on 1-4 family secured real estate lending. We never operated in the high risk business lines or lending activities that the big banks are now infamous for.

It seems to me that the larger banks should absolutely be subject to the Basel III type rules that have been proposed as their diverse business models encompass numerous risks across their businesses that require complex capital monitoring. My bank has only 19 employees in total. Those 19 employees have granted and supported over $125 million in loans to the community that may not have otherwise been available. The proposed rules will create an undue burden on the community bank system and a one size fits all approach seems unrealistic. How can First Resource Bank be subject to the same capital rules as Bank of America? I also do not understand why bank holding companies with less than $500 million in assets were excluded from these proposals but banks with less than $500 million were not excluded.

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[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

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These proposed rules will only make it harder for community banks to raise capital in the future as investors shy away from the higher expenses incurred by banks to comply with the new complex rules and it will lower bank investor returns as banks are forced to hold more capital. Community banks have limited access to capital as it is. These rules have created so much uncertainty about how community banks will survive, it only further scares off capital for small banks.

The inclusion of accumulated other comprehensive income in regulatory capital will introduce a dangerous level of capital volatility. At our bank the only item included in accumulated other comprehensive income is market valuation adjustments on available for sale investment securities. We hold a "plain vanilla" investment portfolio, comprised primarily of U.S. government agency mortgage backed securities, which pose very little credit risk. The market value adjustments on these securities are due to interest rate fluctuations, not potential financial losses. When interest rates begin to rise, the current unrealized gain in that securities portfolio will start to decline and eventually that portfolio could be in an unrealized loss position which would lower regulatory capital, even though there is no more risk in the balance sheet.

The proposed changes to the risk weighting structure will punish my bank for loans made years ago under a different set of rules. Consumer 1-4 family first lien home equity loans always had the appeal of a 50% risk weight which allowed for better pricing for consumers. The proposed rules will double the risk weight on many of our consumer home equity loans at a time when they are a low profit product due to the historic low interest rate environment. If the proposed rules are implemented as presented, we will have no choice but to increase pricing on consumer home equity products or exit that line of business completely.

If the proposed rules are approved as presented for comment, I believe that community banks will have no choice but to consolidate further which will give personal and business consumers fewer choices and inevitably, less access to credit. Community banks serve a vital role in our local economy and they should be encouraged to thrive as independent entities.

The proposed timeline for implementation of these far reaching goals is too aggressive for a community bank our size without ready access to capital markets. No part of these rules should go into effect in 2013 since it is already mid-October and the final rules have not yet been published.

I respectfully request a reconsideration of these rules as they apply to community banks. The unintended consequences of these rules are far reaching for both local communities and the U.S. economy as a whole.

Sincerely,

Lauren C. Ranalli

Lauren C. Ranalli
Executive Vice President, CFO, Director and Co-Founder
First Resource Bank