Bank of the Pacific
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October 15, 2012

Robert E. Feldman
Executive Secretary
Attention: Comment/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 you with feedback on the proposed Basel III regulatory capital rules.

While I have no doubt that the regulation was conceived with the best of intentions, its' ramifications will have sweeping negative effects on the community banking sector and consumer credit availability at the very time when we should be doing whatever can be done to provide support on both fronts. While we have technically been out of recession for quite some time, the slow economic growth experienced combined with lingering high unemployment continues to create many challenges for banks, small businesses and consumers across our country.

Capital availability is already quite difficult for the community bank sector and Basel III will make availability even more difficult as investors seek investments in other sectors with better returns. Regrettably, it is a one size fits all proposal. To put this on the community banking sector on top of Dodd-Frank and CFPB will likely lead to a significant and undesirable downsizing of community banking in our country.

The inclusion of Accumulated Other Comprehensive Income for an industry who maintains investment portfolios on a held to maturity basis is just wrong! This is another mis-application of "Fair Market Accounting" rules that attempt to create transparency and miss the mark completely. This will cause community banks to reduce investment in local communities that rely on community bank investments. As interest rates eventually climb, it will force banks to raise even more capital, further driving investors away from the sector as they seek investments yielding reasonable returns.

The big change in risk weightings is also of concern. First, the community banking sector's record of loss ratios is vastly superior to that of the large bank group. We should not be penalized for higher risk weightings because of their experience, regardless of the reasons for their high loss experience. For example, in the case of Home Equity Lines of Credit at our bank, the loss experience of the largest 19 banks in the U.S. was approximately three times higher than ours. Ultimately this is going to make credit more expensive and more difficult for borrowers to obtain. There is no free lunch. Also, it makes no sense to raise risk weightings on non-performing loans, those risks are already addressed in the bank's loan loss reserves. A limit on ALLL at 1.25% for capital purposes is also inappropriate. If that is going to happen, let's just say that all banks need to have ALLLs at a 1.25% level and that will be our new methodology. I don't think anyone would buy in to that, especially FASB!

Finally, the requirement that community banks with assets under $15 billion begin replacing Trust Preferred conflicts with the intent of the Collins Amendment which provided an exemption to many banks with TRUPS issued prior to May 19, 2010. Our bank would be immediately impacted by this requirement.

Thank you again for the opportunity to express my deep concerns over Basel III and the negative impact it will have on community banking, small business and consumers.

Sincerely,

Bruce MacNaughton
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Chief Credit Officer & Chief Risk Officer
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