First Fidelity Bank

October 6, 2012

Office of the Comptroller of the Currency
Regs.comments@occ.treas.gov
Docket ID OCC-2012-0008,-0009 & -0010

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
Regs.comments@federalreserve.gov
Docket No. 1442

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
comments@FDIC.gov
RIN 3064-AD95,-AD96 & -AD97

Re: Basel III Capital Proposals

I appreciate the opportunity to comment on the Agencies' three joint notices of proposed rulemaking. First Fidelity Bancorp ("FFB") is a privately held, Sub-S single bank holding company. Its subsidiary, First Fidelity Bank NA ("the Bank") is a $1.1 billion community bank with 28 branches in the Oklahoma City, Tulsa and Phoenix metro areas that focuses equally on commercial and consumer business.

Phase Out of Trust Preferred Securities (TruPS)

FFB has issues approximately $28.8 million in TruPS and the requirement to phase out their inclusion in regulatory capital ratios will put a significant strain on our ability to expand our business including lending to small businesses and individuals. TruPS are currently a cost effective form of capital for smaller, closely-held community banks but if they are phased out, we will repay them because they are not a cost effective replacement for deposits. This will reduce by 30% our ability to build capital and this requirement coupled with proposed changes in minimum capital requirements will significantly strain our capital planning and growth opportunities. It is clear that this proposal is not consistent with the intent of Congress as established by the Collins amendment in the Dodd-Frank Act. **The phase out of TruPS will negatively impact the availability of credit from community banks.**

Inclusion of 90% of the carrying value of TruPS in 2013, with an annual 10% reduction on an annual basis until they are fully phased out may create an unintended consequence for those that choose to pay off the TruPS as they become excluded. In our case, we will choose to pay the TruPS off but that further reduces the balance that qualifies as capital. As an example, FFB pays off $2.8 million of TruPS (10% of the outstanding balance) in January 2013 leaving a balance of $26 million. If the 90% is applied to this balance, the eligible capital is only $23.4 million. By paying off 10% of the TruPS, we could be put in a perpetual state of further capital reductions. **If the phase out of TruPS is retained, consider establishing specific date for a "baseline balance" from which the reductions will be applied over the 10 years.**

Requiring Unrealized Gains and Losses to Flow Through Capital

The current proposal that unrealized gains and losses on a banking organization's Available-for-Sale ("AFS") securities flow through to Tier 1 common equity is very detrimental to community banks on several grounds:

- Community banks manage interest rate risk on an enterprise basis and to flow the gains and losses on the AFS portfolio through to capital takes in to account only a portion of the asset side of the balance sheet and does not consider the liability side of the balance sheet. Furthermore, this assumes a single point in time and does not take in to account that the bank is an ongoing business and has the ability to hold the assets without long-term negative impacts.
- Banks will be forced in most cases to shorten their portfolio duration in order to prevent violent swings in capital. The shorter duration will result in lower yields, lower earnings potential and limited capital growth.

The capital ratios of the industry will not represent the actual risk level of community banks. When this proposal is combined with the other proposal including the exclusion of TruPS and higher overall capital requirements, this will continue to stifle the ability of community banks to serve their customers. Regulators may be required by these other provisions to impose unneeded and hurtful restrictions on community banks when the ultimate risk of loss in reality has not increased. The recognition of Other Than Temporary Impairment adequately and accurately reflects the risk that a bank is exposed to. **We would request that the current treatment of other comprehensive income be maintained.**

Increased Risk Weighting on Delinquent Loans

Increasing the risk-weight of nonresidential loans over 90 days past due to 150% completely disregards the role of the loan loss reserve methodology in establishing capital adequacy. This provision in essence will double the reserves established on these loans. This has the potential to put pressure to resolve these loans more quickly putting more strain on borrowers and reducing the flexibility to work with borrowers. **We would request that no additional risk weighting be placed n delinquent loans.**

Implementation of a Capital Conservation Buffer

The proposed capital conservation buffer is problematic in many ways. First, while it is called a "buffer", history indicates that regulators gravitate to the most conservative level therefore the new "minimum" would include the required buffer. To manage a bank prudently, we will be required to have a buffer to the "buffer", particularly with the introduction of such volatility by the provision requiring AFS portfolio losses be included in capital. As a Sub S bank, we need the ability to provide dividends for our shareholders to pay income taxes. The limitations that are automatically placed on a bank could have a very significant impact on the shareholders. Again, many of the provisions that would impose increased capital or factor in the calculation may not actually represent increased risks to the bank, unduly limiting the ability to pay out dividends or bonuses. **We would request that the Capital Conservation Buffer provision be stricken.**

Summary

Capital is critical to maintain a safe and sound banking industry but when all the additional provisions are taken in totality, the burden on community banks like ours is significant. While this is a very complex issue, it is apparent that the risk profile of community banks is clearly different from larger more complex institutions. One size does not fit all and Congress has recognized this by differentiating between bank above $10 billion and below $10 billion. Several provisions will clearly impact community banks by reducing the availability of credit, increasing the cost of capital and increasing pressure on profitability. The largest segment of our controllable expense is personnel and we expect to reduce the overall employee count by as many as 30 positions (10% of the total workforce) in order to compensate for these and other Dodd Frank burdens being placed on community banks. Your thoughtful consideration of these many proposals is appreciated.

Sincerely,

Lee R. Symcox
President and CEO