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October 17, 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: Comments on Basel III and Standardized Approach NPRs
OCC Docket ID OCC 2012-0008, OCC Docket ID OCC-2012-0009
Federal Reserve Board Docket No. R-1442
FDIC Docket RIN 3064-AD95, AD96
Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Ladies and Gentlemen:

I appreciate the opportunity to provide comments on the Basel III proposals recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. I am writing this letter to express my sincere concerns specifically relating to Basel III regulatory capital rules. I strongly urge you to reflect on this impact and consider a possible exemption for most of our community banks from the bulk of these rules

USAmeriBank, founded in 2007, is a $2.5 billion community bank with 10 offices in the Tampa, FL region and 15 offices in Alabama. Despite the recent economic challenges, USAmeriBank has demonstrated the ability to grow both profitably and safely by continuing to add new customers and providing banking services and financing to small and medium-sized businesses. The fast paced growth of the Bank, fueled primarily by local investors, is a testament to the critical role of community banks in the local economy.

Basel III was conceived to prevent failure of large complex international financial institutions. There's no doubt that regulatory oversight is necessary to ensure banks and their customers are protected against future economic downturns. Unfortunately, I believe Basel III, as currently proposed, falls short of strengthening the U.S. Banking industry, and in fact, will weaken the community banking model and shift lending towards less regulated companies. While I believe we should continue to work on

strengthening our banking system, Basel III is too complex and does not incent community banks to stay in the businesses that have been core to our business model for decades.

Although I have many concerns relating to Basel III, below are the five most impactful to our organization.

1. **Gains and losses on Available for Sale (AFS) Securities will be included in Tier 1 Common Equity**

   Unrealized gains or losses in the security portfolio result from credit related adjustments or fluctuation in interest rates. I understand the joint development of an expected loss approach of securities and loans by the Financial Accounting Standards Board will address the credit related concerns.

   For most U.S banks unrecognized losses are reflective of temporary impairments caused by interest rate fluctuation rather than credit impairments. Indeed, at USAmeriBank, over 90% of our securities are issued by the U.S. government sponsored enterprises, whose market value reflects market interest rate levels rather than credit spreads. It is illogical to capture this interest rate risk in capital, as the available for sale security portfolio only represents 12% of our assets. Regulatory capital does not capture the interest rate risk on the remaining 88% of the assets of the bank.

   This misapplication may result in the following undesirable outcomes:

   A. Banks will hold more capital to try to mitigate the risk, pushing down investor returns, making less capital prospectively available to the banking industry and, in turn, restricting the availability of credit provided from the banking sector.

   and/or

   B. Bank capital ratios will fall in a rising rate scenario causing banks to restrict the availability of credit to keep asset levels in proportion to capital.

   and/or

   C. Banks will try to mitigate the potential decline in their capital ratios in a rising rate environment by shortening the duration of their securities portfolio. This will reduce income for banks (assuming a positively sloped yield curve). Even worse, it causes banks to fundamentally mis-match their asset and liability durations, becoming much more asset-sensitive. This will have disastrous effects for the industry in the next economic downturn. The industry will suffer the double whammy of increasing credit losses and declining spread income due to being asset-sensitive in a falling rate environment.

   I believe the proposed rule should be revised so that unrealized gains and losses on AFS securities that reside in accumulated other comprehensive income do not flow through regulatory capital.

2. **The phase-out of TRUPS as a Tier 1 instrument**

The phase-out of TRUPS as a Tier 1 instrument appears to be a regulatory rule that is in direct conflict with an act of Congress; it clearly is in conflict with the spirit of the Collins amendment, if not the letter. Congress' intent was for the treatment of hybrid capital instruments issued prior to Dec. 31, 2009 for institutions with less than $15 billion in assets to be grandfathered.

Trust Preferred Securities have been a very cost-effective source of capital for community banks. Basel III was intended to address large complex international organizations, and therefore the grandfathering that Dodd-Frank provided should weigh heavily with regulatory agencies. Smaller issuers of trust preferred securities have less access to capital markets to refinance trust preferred securities, and they may be difficult to refinance, if they can be refinanced at all.

Through an acquisition, our bank has $15 million in Trust Preferred Securities. Although this is not a large portion of our capital, it is a very cost effective source of capital for us. Raising additional capital may not be cost-beneficial, and therefore the elimination of this cost effective source of capital may require us to reduce our ability to grow our balance sheet by $175 million. Multiplied across the U.S., the potential reduction in loan availability is meaningful and will directly contradict the efforts to spur economic activity.

3. **The introduction of risk weighting of residential mortgages based on Loan to Value (LTV) and the concept of a phase-in period for implementation loans**

Our bank provides a significant number of mortgages in the communities we serve. This proposal may significantly reduce the activity in this important business segment. I support the general methodology of applying risk weightings consistent with the credit profile however the proposed approach is rules based instead of principal guided. For example, under the current approach, a high net worth borrower with a good debt-to-income ratio that requested a balloon payment would be penalized with a higher cost loan because of the higher capital requirements. I believe a more effective methodology would consider the overall credit risk profile that considers all of the credit factors instead of focusing on any isolated factor.

The administrative burden of retroactively applying this standard on a loan-by-loan basis is incomprehensible. It will not only require a change to the core system to apply the standard on a continuing basis, the retroactive application will be a significant resource cost to the bank. Given that Basel III is already substantially increasing required minimum capital, the need for retroactive application is reduced.

4. **The add-back of mortgage loans sold with certain "credit enhancing" representations and warranties.**

Under the current rules, credit enhancing representations and warranties on assets sold to third parties are subject to the risk-based capital requirement, however, boilerplate representations

and warranties required by government agencies such as early payment default, premium refund clauses, and fraud, are excluded from these recourse rules.

It is unclear exactly what is included in the proposed rule, but it appears to require a 100% credit conversion factor for the exposure amount of credit enhancing representations and warranties, which would include such boilerplate representations. This would be detrimental to the mortgage banking industry, and would require us to reconsider the business. I recommend carving out early payment defaults, premium refund clauses, and fraud representations from the definition of credit enhancing.

Since the inception of our mortgage banking business, we have never repurchased a loan. Requiring additional capital of community banks that have historically not had any exposure in this area is detrimental to the business.

5. **Deferred Tax Assets arising from carryovers of net operating losses and tax credits are fully deducted from capital.**

   USAmeriBank acquired a troubled bank with a significant amount of deferred tax assets. Fortunately, we were able to preserve most of the deferred tax asset acquired. Although most of the deferred tax asset will be used before this rule goes into effect, I have a concern with the rigidity of the proposed rule, particularly given the aggregate limit of MSRs, certain deferred tax assets, and equity in unconsolidated subsidiaries of 15 percent of Tier 1 common equity. The current capital requirements already limit the amount of deferred tax asset that can be recognized in capital based upon reasonable assumptions. Further limiting the deferred tax asset will only serve to reduce available lending capacity in our local communities. It will also accelerate the failure of troubled institutions as little value can be placed on the deferred tax asset.

In conclusion, the cumulative effect of Basel III will severely impact community banks by inhibiting profitability, increasing the pricing on debt, and driving down the availability of credit. I strongly urge you to reflect on this impact and consider a possible exemption for most of our community banks from the bulk of these rules. Community banks need to continue to focus on serving our communities and helping to strengthen our local economies.

Respectfully Submitted,

Joseph V. Chillura
CEO, USAmeriBank