The Fountain Trust Company

October 17, 2012

FDIC
550 17th Street, N.W.
Washington, DC 20429

SENT VIA E-MAIL

Re: Proposed Basel III Capital Rules

To Whom It May Concern:

I am writing in opposition to the Proposed Basel III Capital Rules on behalf of The Fountain Trust Company in Covington, Indiana. The Fountain Trust Company is a small community bank with $260,000,000.00 in assets and $32,000,000.00 of Tier I Capital. We have eleven (11) locations and have been in business since 1903.

The Fountain Trust Company is opposed to the Basel III rules for two reasons: 1. Running unrealized gains and losses on securities through capital will make conservative institutions more volatile. 2. The proposed risk weights are overly complex, offer no value to the shareholders or users of our financial statements and will negatively affect our ability to work with past due borrowers.

The Fountain Trust Company is a very conservative bank and has always had a significant portion of its assets in liquid securities such as treasuries, agencies, agency-backed mortgage-back securities and general obligation municipal bonds. We have never had our loan to deposit ratio above 75% to ensure that the bank always has enough liquidity. The Fountain Trust Company currently has approximately $100,000,000.00 in investments. If you assume a duration of two and a rate increase of four hundred (400) basis points, which is what the examiners are asking us to model, The Fountain Trust Company will have approximately an $8,000,000.00 loss in its investment portfolio. Under the Basel III proposal, the $8,000,000.00 loss will flow through to our regulatory capital and create a large shift in our capital position. The Fountain Trust Company, according to the FDIC's Basel III calculator, will still be well capitalized under the Basel III proposal, but the bank will be extremely volatile and the shareholders will be uneasy. When rates rise, the board may restrict the bank's growth to bolster capital. Traditionally, banks with large investment portfolios and plenty of liquidity have been considered safer and more conservative banks. However, under the proposed rules, these banks will become much more volatile than banks that are completely loaned up with no liquidity. If The Fountain Trust Company increased its asset base and reduced its overall capital ratios, but maintained a large investment portfolio, The Fountain Trust Company could potentially become undercapitalized due simply to the swing in investment unrealized gains and losses. It makes no sense to adopt accounting rules that make a small financial institution more volatile because it has more liquidity than a bank which has little liquidity and is fully loaned up. Banks should fail because of a lack of liquidity and not because of accounting rules.

The proposed risk weights are overly complex and will not benefit the shareholders or users of The Fountain Trust Company's financial statements. The proposed risk weights structure has too many categories and it will burden The Fountain Trust Company to have to not only divide its assets into the various risk weight categories initially, but also maintain the proper risk weight assignment going forward. The Fountain Trust Company has never relied on its risk weighted capital ratios because the shareholders of The Fountain Trust Company place no value on risk weighted capital. The only capital ratios which are of importance to The Fountain Trust Company shareholders is the actual capital and leverage ratio. The risk weight structure should be simple to use like the current risk weights. Banks have other means to reserve for riskier loans through the loan loss reserve and high loan-to-value calculations which are currently required. Also, indirectly reserving for these assets through the capital ratio is pointless and will not protect

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the financial industry from another crisis. If the big banks and bankers do not want to reserve for their riskier assets, they will simply place them in the wrong risk weight category or structure the asset to mask the risk like they did before the financial crisis. The risk weight categories are complex enough that the incorrect assignment will be difficult to find for examiners.

In addition to being overly complex, the proposed risk weights will adversely affect our ability to work with troubled borrowers. When a risk weight on a specific loan increases dramatically when the customer becomes past due, it will force the bank to foreclose sooner rather than later. As a community bank with plenty of capital, we are uniquely positioned to work with our troubled borrowers for long periods of time before foreclosing. We have been able to let customers run past due several hundred days to give the customer time to work out the problems. We have preserved multiple businesses over the years by working with the customer instead of foreclosing immediately when the customer reaches ninety (90) days past due. If the risk weights increase dramatically at ninety (90) days past due, community banks will be less likely to work with their customers through tough times. Another unintended consequence of raising the risk weights when a customer becomes significantly past due could also be that bankers will rewrite the loans to make them current. This will prevent the bank from changing the risk weight and holding more capital to support that asset and will also hide those loans from the examiners.

I urge you to either scrap the Basel III Proposal entirely or create a complete exception for community banks so that they can continue to operate under the current capital standards.

Yours truly,

THE FOUNTAIN TRUST COMPANY

by Lucas White

Lucas White, Vice President

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