INTEGRITY FIRST BANK

October 17, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, Northwest
Washington, DC 20429
Via E-mail: comments@FDIC.gov

Re: Basel III FDIC RIN 3064-AD95, FDIC RIN 3064-AD96, and FDIC RIN 3064-D97

Ladies and Gentlemen:

We appreciate the opportunity to provide input on the Basel III capital proposals issued for public comment by the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency.

Initially, we, the board of directors of Integrity First Bank, N.A., are opposed to the Basel III capital proposals as they apply to traditional community banks. It is our opinion that the proposals should be revisited to intent with any determined application targeted to financial institutions with total assets of $50 billion or more. In addition, in effort to keep our remarks brief, we do not want a lack of comment made to specific points embedded in the proposals to be misinterpreted as approval. Instances of silence mark our dissent to Basel III proposals being applicable to community banks.

Let us speak to certain issues within the proposals that present particular concern. First, it is apparent that little regard was given the community bank model present in the United States. A "one size fits all" approach to governing capital standards does not properly fit the vast array of financial institutions operating worldwide. The complexities in the proposals outstrip the capacity of compliance staffing present in most community banks. The reallocation of resources to address the requirements within the proposals will certainly reduce available funds for investment in small communities.

Second, the inclusion of Accumulated Other Comprehensive Income in a bank's capital account should be stricken. Recognizing that the current low interest rate environment will not last forever, the inclusion of unrealized losses of 'available for sale' securities in common tier one capital will cause a 'roller coaster' effect in capital levels leading community banks to restrict lending growth as a guarded measure, which will further retard any economic recovery. Additionally, regulatory lending limits are tied directly to the bank's capital account. A reduction in that capital account based solely upon 'unrealized losses' in the value of a bank's securities portfolio due to interest rate movements will adversely impact a community bank's ability to lend money to consumers and small businesses. Again, such guarded action taken by community banks will retard economic activity in small towns across the nation.

Third, the Collins Amendment to the strongly debated Dodd-Frank Wall Street Reform and Consumer Protection Act permits banks with less than $15 billion in total assets to include Trust Preferred Securities as a part of the bank's capital account. The proposed phase out of Trust Preferred Securities is inconsistent with the intent of Congress in its adoption of the Collins Amendment. It appears that Basel III mandates a 10% per year write down of these capital instruments through the year 2021. A more proper and equitable disposal of these capital instruments would be to 'grandfather' existing Trust Preferred Securities into the proposed capital rule to allow those banks holding such instruments to manage their capital accounts according to the terms of the original investment in those instruments. Our small $390 million community bank holds $10 million in Trust Preferred Securities.

Fourth, the standardized approach to the risk weighting of loans in capital management, especially those supported by residential mortgages, is likely to cause community banks to tightly focus on less 'risky' loans resulting in fewer residential mortgages being made, which in turn will further hinder a rebound in the housing market across the heartland. Also, the proposed methodologies for risk weighting mortgage loans that can require assigned risk weights up to 200% apply to 'existing' portfolio loans as well as new loans going forward. These proposed methods of determining the level of risk require an enhanced data base that most community banks have not been accustomed to maintaining. It is certainly likely that such data was not collected at the time of origination of those loans 'existing' in portfolio at present time. Once again, the production and maintenance of supporting data will absorb resources previously devoted to community investment. 'Existing' mortgage loans should be excluded from this proposed requirement and assigned a risk-weighted component under the current risk-based capital guidelines of 50%.

Fifth, it is noted that the proposed rules do not apply to credit unions. Such exemption renders a competitive disadvantage to community banks at a time when credit unions are actively pursuing broadened lending powers. If the proposals are not withdrawn, then credit unions should be subject to the same capital rules applicable to community banks.

In conclusion, the five points mentioned are representative of the many problematic issues found in the Basel III proposals. We find the vast majority of these proposals impractical for community banks. Implementation of such proposals will likely restrict available credit to many prospective borrowers, increase the cost of credit for many consumers, and retard economic growth in small communities where, in essence, community banks represent the lifeblood of their very existence.

We acknowledge that strong capital positions are essential to the safety and soundness of all financial institutions. With respect to that understanding, we are concerned that the Basel III requirements as proposed will have a negative impact on the ability of Integrity First Bank, N.A. to effectively and efficiently serve our customers and our communities. We reiterate our position that these proposals should not apply to traditional community banks.

Respectfully,

Board of Directors, Integrity First Bank, N.A.

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