The Better Bank
FIVE POINTS BANK
GRAND ISLAND KEARNEY OMAHA SUMNER

WILLIAM W. MARSHALL, III
CHAIRMAN

October 19, 2012

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219
regs.comments@occ.treas.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
comments@FDIC.gov

Re: Basel III Docket No. R-1442
Basel III OCC Docket ID OCC-2012-0008, 0009, 0010
Basel III FDIC RIN 3064-AD 95, RIN 3064-AD96, and RIN 3064-D97

Ladies and Gentlemen:

Thank you for the opportunity to submit comments on the Basel III capital standards proposals recently approved by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, the "Agencies"). After reviewing Basel III, our bank has objections to several of its proposed rules which we believe will have an unintended adverse consequence of stifling growth for community banks, and, more importantly, the communities that they ably serve. For the reasons set forth below, we specifically object to Basel III's rules requiring: (1) unrealized gains and losses flowing through Tier 1

MEMBER FDIC P.O. BOX 1507 Main Bank at 2015 North Broadwell Avenue 308-384-5350 GRAND ISLAND, NEBRASKA 68802-1507

capital; (2) enhanced risk weighting for certain real estate asset-based loans; and (3) deduction of mortgage servicing assets exceeding 10% of a bank's Tier 1 capital.

Our bank is roughly $730 million in size. The primary markets we serve are in Central and Eastern Nebraska, including Grand Island, Kearney and Omaha. Our customers are small businesses and individuals who live and work within the communities we serve. We feel by objective measures we are well capitalized and very safe and sound. The communities we serve have flourished over the past two decades and we proudly believe that we have played an important role the economic growth of the region in which these communities lie. As businesses in our communities have expanded, we have been able to provide the capital necessary to meet their expansion initiatives.

While we believe our current regulatory environment is rigorous, it is not stifling and encourages measured and prudent growth. Unfortunately several of Basel III's proposed capital rules, together with their accompanying regulatory and reporting requirements, are deleterious to growth for community banks and the communities they serve. In our view, the Basel III rules described below will discourage the very lending that serves as a key cog in the engine that drives economic growth and development in small and medium sized communities in Nebraska and throughout the country. Furthermore, these rules will provide a complex overlay to an already heavily regulated environment that many community banks simply do not have the resources to adequately tackle.

The first Basel III rule that we find troubling is the proposed flow-through of unrealized gains and losses on a bank's Available-For-Sale (AFS) securities to Tier 1 capital. Managing a bank through a rising interest rate environment presents plenty of challenges. These challenges will be needlessly compounded by the capital pressures caused by inclusion unrealized losses of AFS securities within a bank's Tier 1 capital. The net result, for a community bank like ours at least, will be to reduce our ability and incentive to grow and lend in our communities due to the diminishing capital caused by ***unrealized and paper*** losses in AFS securities. As of September 30, 2012, approximately 30% of our bank's assets – $215 million – were held in securities. For liquidity purposes, $170 million of these securities were held AFS. We believe that maintaining a significant portion of our assets as AFS securities protects the bank from volatility and helps insure ample liquidity. Subjecting our Tier 1 capital to whimsical securities market price fluctuations could needlessly inhibit our ability to lend to our customers due to capital constraints. Furthermore, it would create a disincentive for what we believe is a prudent bank management practice of maintaining a high level of liquidity through our AFS securities portfolio. Therefore, we strongly urge the Agencies not to adopt this growth inhibiting rule of Basel III, or, at a minimum, exempt community banks of $15 billion in assets or less.

Another troubling aspect to Basel III is its seemingly arbitrary, and in some instances draconian, risk weighting measures, particularly those applied to real estate asset-based loans. As a community bank we primarily serve small businesses and individuals. In many instances, the most valuable asset possessed by the individual or small business is a real estate asset. Our bank is not lending money on speculative out-of-area real estate ventures, but rather is focused on lending against the most valuable asset held by our customers – their real property. The risk weighting requirements of Basel III, particularly those applied to commercial real estate and five-year balloon residential mortgages, will act as a disincentive for community banks to lend to their communities. By risk weighting loans made against these assets at 100% ***and higher***, Basel III will dramatically limit a community bank's opportunities to expand and grow with its communities' needs by penalizing the very lending that has traditionally served as the backbone of community banking.

Finally, we object to Basel III's deduction of mortgage servicing assets that exceed 10% of a bank's Tier 1 capital. Our bank and our customers have participated in the Federal Home Loan Bank of Topeka's Mortgage Partnership Finance (MPF) Program. The MPF program has allowed our bank to provide long-term, low-interest mortgage loans to our customers, while retaining the servicing rights and avoiding the interest rate risk that comes with making such loans. Our customers like the idea of continuing to deal with their local community bank for mortgage servicing issues on what is typically their largest personal debt obligation. At the same time, we benefit from continued interaction with our customers along with the modest fee income associated with the mortgage servicing rights and escape the interest rate risk associated with fixed-rate mortgages. It is truly a win-win product for both our bank and our consumers. This new rule will discourage our continued participation in this tremendously successful program sponsored by the Federal Home Loan Bank. It simply doesn't make sense to us why the Basel III rules would create a disincentive for banks to offer this great product to their customers.

As a community bank that endured both the 1980s Ag crisis, as well as the Great Recession, we fully support rigorous capital standards for banks, including the raised minimum requirements for common equity of risk weighted assets (4.5%) and Tier 1 capital (6%) proposed by Basel III. We believe that raising the minimum capital standards encourages measured and healthy growth. Unfortunately, we see the aforementioned Basel III rules which in essence redefine capital as providing a disincentive for otherwise healthy community banks to lend and support the growth of the communities they serve. We strongly urge the Agencies to either eliminate the rules described above, or exempt their application from banks with less than $15 billion in assets.

Thank you for your consideration of these comments.

Respectfully,

William W. Marshall III

William W. Marshall III
Chairman
Five Points Bank

cc: Sen. Ben Nelson
Sen. Mike Johanns
Rep. Adrian Smith
Rep. Lee Terry
Ms. Esther George