FIRST NATIONAL BANK OF THE GULF COAST
The Golden Rule Bank

October 19, 2012

Mr. Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Mr. Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Re: Proposed Basel III Capital Standards and Community Banks

Dear Sirs:

First National Bank of the Gulf Coast ("Bank") is a $570 million community bank, serving Southwest Florida through its five offices located in Collier and Lee Counties. The Bank organized in 2007, has been a source of economic strength, in a very fragile Southwest Florida economy. At June 30, 2012, the Bank had a tier 1 capital ratio of 11.77% and non-accrual loans represented only .77% of total loans. Since December of 2009, the Bank has originated and funded loans approaching $300 million to individuals and businesses located in Southwest Florida. The local economy continues to be weak, and a return to pre-recession levels is not foreseeable. The region's current economic predicament is directly associated with the complex risk-taking measures deployed by the nation's money-center banks and non-FDIC insured financial firms. The last four years have seen double-digit unemployment levels and minimal economic growth, with the threat of a relapse into a second recession, a real possibility. Locally owned community banks used to hold upwards to 30 percent of the deposits in these markets. Today, these levels have dramatically declined as many of the community banks were victims of the recession, leaving community banks accounting for only 5 percent of the deposit base. These same community banks provided the primary funding base for local small business expansion and job growth.

The Proposed Basel III Capital Standards, which seek to address the complex risk-taking measures of the money-center banks and firms that initiated the national and global economic woes, also apply to all community banks. Although community banks did not participate in these risk-taking measures, community banks will suffer undue regulatory burdens, which may radically distort the traditional services offered by the dwindling number of community banks. The unintended consequences of the Basel III Capital Standards may also continue to restrict job growth, threaten the weak economic recovery experienced to date and further reduce the community bank landscape.

The following provisions will have a significant impact on the Bank and community banks in general:

Unrealized Gains and Losses on Securities Available for Sale

The Proposed Basel III Capital Standards require that all unrealized gains and losses on available for sale securities must be considered in common equity tier 1 (“CET1”). Therefore, changes in the value of securities available for sale, must immediately be reflected in CET1. Changes in the value of a community bank’s portfolio of securities available for sale results primarily from changes in general interest rates, rather than changes in the underlying credit risk of the securities. The Proposed Basel III Capital Standards do not provide for the offsetting impact of changes in the value of liabilities utilized to fund the portfolio of securities available for sale.

Community banks have traditionally utilized their investment portfolio for liquidity purposes, and have demonstrated an ability and intent to hold investment securities to maturity. However, over the past four years, many community banks have increased their investment portfolios, as loan growth has been stagnant. This is particularly true for de novo banks. Requiring unrealized gains and losses on available for sale securities, will introduce significant volatility into the capital calculation. In order to reduce exposure to capital volatility, community banks will seek to reduce exposure by reducing their investment portfolios. Further enhancing price deterioration, and capital volatility for all community banks, as supply will greatly exceed demand. These actions could lead to economic retraction and a continued reduction in community banks and community bank services.

High Volatility Commercial Real Estate

The Proposed Basel III Capital Standards will increase the risk weighting assigned to acquisition, development, construction commercial real estate (“ADC”) loans to 150 percent. ADC loans will be assigned a risk weight of 150 percent, to those loans that do not meet:

- Regulatory Loan to Value requirements;
- Provide for the borrower contributing cash of at least 15 percent of the subject properties completed appraised value; and
- Contractually require the borrower’s capital (contributed cash) to remain in the project, until the loan converts to permanent financing, is sold or paid in full.

Assuming that the above exceptions are not applicable, all ADC loans would be assigned a risk weighting of 150 percent, including owner-occupied properties, borrowers that have a debt service coverage of well over 1.0 times and income-earning loans.

Currently, all ADC loans are assigned a risk weight of 100 percent.

Community banks have traditionally played a significant role in funding ADC loans, particularly in growth markets such as Southwest Florida, which caters to retirees and hospitality. Historically community banks have reflected concentrations in ADC loans within their allowance for loan and lease losses, as such concentrations reflect a higher level of risk, particularly in income producing properties. Bank regulators, external auditors and investors have also become comfortable with this practice.

We believe the current practice is reasonable, and that by assigning a risk weighting in excess of 100 percent will result in duplication of capital allocation and may ultimately result in community banks reducing exposure to ADC loans and further reducing or eliminating funding alternatives to financially capable borrowers. Therefore, we encourage that community banks be allowed to continue to use of the risk weights established under Basel I.

Risk Weights on Delinquent Nonresidential Loans

The Proposed Basel III Capital Standards will increase the risk weighting assigned to 90-day delinquent nonresidential loans to 150 percent. Again, community banks have traditionally addressed the additional inherent risk associated with a delinquent loan in its determination of the adequacy of its allowance for loan and lease losses. Bank regulators, external auditors, and investors have also accepted this methodology and practice.

We believe the current practice is reasonable, and that by assigning a risk weighting in excess of 100 percent, will result in duplication of capital allocation. In addition, the Proposed Capital Standards may deter acquisitive community banks, from participating in FDIC failed bank acquisitions, which do not utilize loss share arrangements, and other open bank acquisitions. At a minimum, the Proposed Capital Standards need to consider delinquent loans acquired at discounts and accounted for under ASC 310-30, formerly SOP 03-3 “Accounting for Certain Loans and Debt Securities Acquired in a Transfer”.

First National Bank of the Gulf Coast urges you to reconsider the Basel III framework, and consider the significant implications that this framework will have on community banks as well as the unintended consequences that implementation of this framework will have on small businesses, the general economy and the economy’s ability to generate jobs. If you have any questions or would like to discuss further, please do not hesitate to call me at 239.325.3700 or email me at garytice@fnbofgc.com.

Very truly yours,

Gary L. Tice

Gary L. Tice
Chairman and
Chief Executive Officer