From: Slight, Gary
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96 and RIN 3064-D97
Date: Monday, October 22, 2012 11:48:16 AM
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COMMUNITY BANK
Member FDIC

October 22, 2012

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Company
550 17th Street, N.W.
Washington, D.C. 20429

Ladies and Gentlemen:

I appreciate having this opportunity to express my comments related to the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. I am the President of Community Bank and Trust Company, a $248,000,000 bank headquartered in Muscatine, Iowa. I am writing today to express my concerns as a community banker.

The proposed rule that unrealized gains and losses flow through to common equity is, at the least, an accounting challenge. In addition, the timing of this event could not be worse. At a time when interest rates are at all time lows, the effect on capital, as rates inevitably increase, will be to reduce capital significantly. We hold most of our securities in the available for sale category for liquidity purposes. With this rule, the probable action of our bank will be to reclassify the available for sale securities to held to maturity limiting our ability to manage our investment portfolio through different interest rate and economic cycles. I ask that this section of the proposal be eliminated.

The proposal for risk weighting residential mortgages in various ways is flawed from a community banker point-of-view. Our mortgages are underwritten at the time of the loan. We have a successful track record of providing loans to families for the purchase of a residence. In many cases, the real estate either may not qualify for the secondary market or the comps for appraisals do not meet secondary market guidelines. In these cases, we are using balloon mortgages. With the proposed "penalty" for writing balloon mortgages, the end result in our case will be to eliminate them entirely and, by doing so, disqualify a large number of borrowers from obtaining home ownership. The proposal also does not take into account private mortgage insurance when calculating the loan-to-value position. Finally on this topic, there is no grandfather provision to this rule so all residential mortgages on the bank's books would be subject to the new capital requirements. This "granular" approach will take a great deal of our time and money to calculate the new reporting requirements – time and money that would be better spent making new loans to help this stagnated economy get moving. This provision also applies to home equity and second lien loans. Again, the end result will be a reduction (or elimination) of these credit

229 Main Street
P.O. Box 268
Columbus Junction, Iowa 52738
(319) 728-2226

615 Cedar Street
P.O. Box 500
Muscatine, Iowa 52761
(563) 263-1122

2506 Park Avenue
Muscatine, Iowa 52761
(563) 263-1057

206 Hwy. 61 N
P.O. Box 96
Wapello, Iowa 52653
(319) 523-8390

210 W. 4th Street
P.O. Box 1120
Wilton, Iowa 52778
(563) 732-2077

products to the general public. I ask that these provisions related to mortgage lending products be eliminated.

The proposal to increase risk weights on delinquent loans compounds the problem. I can assure you that delinquent loans receive our immediate and undivided attention. Given that we are identifying the problem and past due loans and providing an allowance in the ALLL for these, the additional impact on capital seems onerous. The rule as approved will remove the option of working with those past due borrowers to improve the credit and force us to just foreclose the property and get out of the situation as quickly as possible. Risk regarding past due loans should continue to be managed through loan loss reserve guidance and not by layering on an additional capital requirement.

The elimination of trust preferred securities is a complete re-write of the Collins Amendment to the Dodd-Frank Act which never intended for this type of investment to be completely phased-out for community banks. The proposal will reduce our ability to grow and better serve our customers. The proposal seems to be in direct contradiction to not only the statute, but also our stated national goal to promote economic growth and job creation. I ask that section be made consistent with the requirements intended by the Dodd-Frank Act.

In closing, I understand and applaud the goal of reducing risk and strengthening the financial system. The Basel III rules (I believe) were intended for large multi-billion dollar global financial institutions and were never intended to restrict the important role of community banks in our local economies and markets. I urge the agency to repeal this proposal as it relates to community banks so we may continue serving our local customers and working to improve our local economy.

Sincerely,

Gary D. Slight
President