FIRST STATE BANK OF WYOMING

"Hometown Banking With Your Neighbors & Friends"

Jennifer J. Johnson, Secretary,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue, N.W.,
Email: regs.comments@federalreserve.gov
Washington, D.C. 20551
Docket No. R–1430; RIN No. 7100–AD87
Docket No. R–1442; RIN No. 7100–AD87

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, DC 20219
Email: regs.comments@occ.treas.gov
Docket ID OCC-2012-0008
Docket ID OCC-2012-0009

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Email: comments@fdic.gov
FDIC RIN 3064–AD95
FDIC RIN 3064–AD96

RE: My comments in response to the notice of proposed rulemaking (NPR) on minimum regulatory capital and the standardized approach for risk-weighted assets as proposed by Basel III.

To Whom It May Concern:

As a community banker, I recognize the importance of appropriate levels of capital as a key component of a safe and sound bank and banking system. Maintaining adequate levels of capital for my bank is not my concern as we are one of the highest capitalized banks in our State. Rather, my concern is the process and consequences of instituting complex new rules on community banks irrespective of the size or risk profile of the bank.

The Basel III proposals were intended for large, sophisticated financial institutions competing with others of a similar scale across the globe. I am very troubled that our

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own U.S. regulatory authorities would include community banking in these complex new capital rules. The new capital proposal is unnecessary and a costly regulatory burden that will result in damaging, unintended consequences for my bank and may force us to sell the 100 year old, family owned community bank.

For the very reason that the agencies have proposed these rules –the safety and soundness of the industry –community banks should be exempt from these proposals and allowed to continue to measure capital according to present methodology.
Lawmakers, regulators, the press, and the general public including my customers all agree that community banks didn't participate in the bad behavior that contributed to the financial meltdown. However, the proposed "fix" is making life difficult, if not impossible, for my bank and other community banks to survive. If these proposals are applied to community banks, ours and many others will decide that the barrage of federal law and regulatory overkill has rendered their business unsustainable.

The ongoing and complex collection and reporting of information on various asset categories required by the proposed rules will further tax the limited resources of my bank. The added cost and time needed to comply with these provisions—without benefit to the bank or the public – are reasons enough to exempt community banks from this proposal.

The historically low interest rate environment and stagnant economic growth has created issues for many community banks. In a time when loan demand is nearly non-existent and we struggle to maintain a 55% loan to deposit ratio, my bank has accumulated a very large securities portfolio. Even though we are very well capitalized today, my bank will eventually face potentially significant unrealized losses in our securities portfolio. This could in turn create scenarios in which a loss of capital could result in severe sanctions due solely to market rate movements. Further, the "mark to market" requirement will require my bank and others to hold more capital to compensate for inevitable swings in interest rates, thus hindering growth and lending opportunities.

Community banks typically invest in issuances of their local governmental entities. The cost of borrowing for these public entities will likely increase as community banks will be reluctant to hold longer maturity securities for fear of rate-driven capital degradation. This could result in a significant negative impact on infrastructure development at the state and local level as well as harm projects that create jobs locally.

My bank is a long-term investor and does not actively trade its securities portfolio; therefore, inclusion of unrealized gains or losses in the securities portfolio as proposed is only meaningful in a liquidation scenario. The proposed changes, incorporating market rate swings into Common Equity Tier 1 capital, will pressure us into moving to shorter maturities. With limited loan demand, we cannot afford to give up precious and dwindling earnings opportunities. This could also result in sacrificing liquidity by moving securities to the "Held to Maturity" bucket, limiting loan growth, and forgoing expansion.

Furthermore the proposed risk weighting to various asset classes will be challenging, expensive, and a strong disincentive for me to provide any lending options for my customers. Specifically this will serve as a strong disincentive to mortgage and real estate lending at my bank, especially loans kept in my banks' portfolio.

Further, the introduction of "High Volatility Commercial Real Estate" (HVCRE), with a 150% risk weighting and limited exemptions will limit my bank's willingness to make these loans and raise borrowing costs in this already challenged market and result in additional harm to an already shaky real estate lending market.

Our current Allowance for Loan and Lease Losses already allocates reserves for higher risk, classified, past due and non-accrual loans. It appears that the additional proposed capital requirements of Basel III are just layered on top of those calculations.

Community banks are already struggling with regulatory burdens that make it difficult to fund properly underwritten real estate loans. Complying with these Basel III proposals will further increase our compliance costs which will ultimately have to be passed on to my customers, potentially driving them to the big banks for mortgage loans. The resultant increased market share and concentration of residential real estate mortgage loans in the largest banking institutions is simply not healthy for our economy.

The Basel III proposal is counterproductive to my bank, to the local economy, to the state economy and the national economy Therefore the logical thing to do is to exempt all but those complex international banking institutions considered "systemically important" from these burdensome, elaborate, and counterproductive capital rules.

Thank you for the opportunity to comment on these proposals.

Sincerely,

Mark A. Zaruba
Executive Vice President