EASTWOOD
BANK
Growing your way

October 11, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street SW
Mail Stop 2-3
Washington, D.C. 20219

Ladies and Gentlemen:

Eastwood Bank is a $550MM community bank serving the financial needs of SE Minnesota with 11 branches and over 170 employees.

Eastwood Bank remained well capitalized and profitable throughout the 'Great Recession' and has had record levels of profitability the last two years.

While I do not want to experience another recession, I am more fearful of the effects Basel III regulations will have on the banking industry and Eastwood Bank than the harms caused by the recession.

The Minnesota Bankers Association recently sent in a comment letter highlighting 5 primary areas of concern as follows:

- The diverse make-up and business models of our nation's banks do not fit the complex, standardized Basel III approach which will lead to several banks exiting the targeted areas and ultimately leaving consumers with less competitive options.
- Basel III is duplicative and unnecessarily burdensome as regulators already have mechanisms to protect the financial system from high risk and delinquent loans.
- Realizing of unrealized gains and losses of available-for-sale (AFS) securities will create dramatic changes in bank capital requirements based on economic cycles with little actual change to most banks' risk profiles as bond portfolios are generally comprised of low-risk issues managed for interest rate and liquidity risk purposes.

- Harsh treatment of residential real estate will further limit supply of products available to consumers with little impact on the businesses and practices that led to the recent financial crisis.
- Elimination of certain capital elements like trust preferred securities and deferred tax assets will negatively impact smaller institutions' ability to raise funds in the marketplace, resulting in lesser funds available for consumer and small business leading during times of economic improvements.

We share all of these concerns and wish to emphasize the detrimental effects associated with including unrealized gains and losses of AFS securities in capital calculations, coupled with the phase out of trust preferred securities (TPS).

The impact of including unrealized gains and losses of AFS securities will create dramatic swings in bank capital positions based entirely on economic cycles. We have tested the calculations with a 200 to 300 basis point increase in interest rates. With this scenario our financial institution goes from being well capitalized to being under-capitalized. An AFS securities portfolio allows us to manage our liquidity needs and interest rate risk. Including unrealized security gains and losses in the capital calculation will greatly impact our ability to manage these risks. (See attached capital analysis.)

The phase out of TPS impacts our financial institution and our overall capital position. We believe our capital position is and will be strong enough to absorb the TPS phase-out while managing asset growth, loan quality, and net income. However, Basel III implementation combined with TPS phase-out will require our financial institution to either seek outside investors, which as a Sub-S Corp may be difficult to do, or shrink our balance sheet, effectively reducing lending. Forcing us and other financial institutions to shrink our balance sheets is a contra step to supporting economic growth.

The limited value gained by forcing community banks such as ours to adopt Basel III surely is not worth the costs and economic consequences it will incur.

We do not believe Basel III is appropriate for community banks.

Sincerely,

Paul R. Tieskoetter

Paul R. Tieskoetter
President & CEO

PRT:ejf

Eastwood Financial Corporation
Capital Analysis- Basel III and Dodd Frank Act (DFA) Implications
August 2012

Capital Ratios	**Well Capitalized Under Basel III**	**Current**	**Fully Implemented Basel III & DFA Current**	**What-If Scenarios: Fully Implemented Scenario 1***	**What-If Scenarios: Fully Implemented Scenario 2***
Leverage	5.00%	8.07%	7.78%	6.65%	5.53%
Common Equity Tier 1 (new CET1)	7.00%	NA	9.47%	8.10%	*6.73%*
Tier 1 Capital Ratio	8.50%	11.57%	9.47%	*8.10%*	*6.73%*
Total Capital Ratio (TCR)	10.50%	13.61%	13.17%	11.80%	*10.43%*

Notes:

We would be below the new Common Equity Tier 1 (CET1) ratio of 7.00% if the investment portfolio had an unrealized loss of approximately $4.6 million. In order to have a swing of this magnitude (current $6.1 million unrealized gain to $4.6 million unrealized loss) interest rates would have to increase immediately (shocked) 175 bps in the 4 year part of the curve. TRUPs have no impact on the CET1 ratio.

Basel III is currently in 'notice of proposed rule' (NPR) stage and comment period has been extended until October 22nd. DFA is final and TRUPs will be phased out of Tier 1 capital starting in 2013.

*Unrealized gains(losses) are now included in tier 1 capital under Basel III. Capital ratios look great under the fully implemented scenario because we have approximately $6.1 million unrealized gain in the investment portfolio. Scenario 1 reflects no unrealized gain in the investment portfolio, and scenario 2 reflects an unrealized loss of $6.1 million.

** Dodd Frank Act (DFA) requires a 10-year phase out of Trust Preferred Securities (TRUPs) included in tier 1 capital; however, they still would count towards tier 2 capital. Scenarios 1 and 2 reflect fully implemented (TRUPs included in tier 2 only) Basel III and DFA ratios.

Eastwood Financial Corporation
Impact of Basel III and 10-Year Phase-Out of TRUPs from Tier 1 Capital
August 2012

Current- Unrealized Gain of $6.1 million	**Basel III**	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Leverage	5.00%	9.10%	8.95%	8.81%	8.66%	8.51%	8.37%	8.22%	8.07%	7.93%	7.78%
Common Equity Tier 1 (new CET1)	7.00%	9.47%	9.47%	9.47%	9.47%	9.47%	9.47%	9.47%	9.47%	9.47%	9.47%
Tier 1 Capital Ratio	8.50%	11.07%	10.89%	10.72%	10.54%	10.36%	10.18%	10.00%	9.83%	9.65%	9.47%
Total Capital Ratio (TCR)	10.50%	13.17%	13.17%	13.17%	13.17%	13.17%	13.17%	13.17%	13.17%	13.17%	13.17%

Scenario 1- No Unrealized Gain/(Loss)	**Basel III**	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Leverage	5.00%	7.97%	7.82%	7.68%	7.53%	7.39%	7.24%	7.09%	6.95%	6.80%	6.65%
Common Equity Tier 1 (new CET1)	7.00%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%
Tier 1 Capital Ratio	8.50%	9.70%	9.52%	9.34%	9.17%	8.99%	8.81%	8.63%	***8.45%***	***8.28%***	***8.10%***
Total Capital Ratio (TCR)	10.50%	11.80%	11.80%	11.80%	11.80%	11.80%	11.80%	11.80%	11.80%	11.80%	11.80%

Scenario 2- Unrealized (Loss) of $6.1 million	**Basel III**	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Leverage	5.00%	6.84%	6.70%	6.55%	6.40%	6.26%	6.11%	5.97%	5.82%	5.67%	5.53%
Common Equity Tier 1 (new CET1)	7.00%	***6.73%***	***6.73%***	***6.73%***	***6.73%***	***6.73%***	***6.73%***	***6.73%***	***6.73%***	***6.73%***	***6.73%***
Tier 1 Capital Ratio	8.50%	***8.33%***	***8.15%***	***7.97%***	***7.79%***	***7.62%***	***7.44%***	***7.26%***	***7.08%***	***6.90%***	***6.73%***
Total Capital Ratio (TCR)	10.50%	***10.43%***	***10.43%***	***10.43%***	***10.43%***	***10.43%***	***10.43%***	***10.43%***	***10.43%***	***10.43%***	***10.43%***