First 1 Bank
MEMBER F.D.I.C.
Since 1922

P.O. Box 1237, Clewiston, Florida 33440
Phone: (863) 983-8191 Fax: (863) 983-5043
Moore Haven: (863) 946-1515

October 22, 2012

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

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

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

We have attached the Basel III template which allowed us to estimate the capital and risk weighted asset impact of the proposed regulations on our Bank. In summary, we expect a $27MM or 15% increase in risk weighted assets and a corresponding capital maintenance, a decrease in regulatory capital, and a significant decrease in TRB capital from 12% to 10.3% which is well below our current consent agreement.

In general terms, BIII will force community bank shareholders to seek alternatives to further investment as new regulatory burden hampers growth in lending. This is especially punitive to Florida banks who are trying to rebound from capital losses already experienced in this economic down-cycle.

The implementation timeline starts in 2013 when banks are attempting to recover from the current financial crisis, recession, and depressed real estate values. It will take several more years for our bank to recover and rebuild our Balance Sheet and the proposed BIII timeline is too aggressive for us to meet increased capital requirements. The current interest rate environment and limited loan demand, especially in non-CRE lending, will make it difficult for us to maintain and grow profits organically and comply with the timeline.

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With regards to the Accumulated Other Comprehensive Income (AOCI), larger banks can hedge impact of interest rates on AOCI, our bank cannot. Since Interest rates are likely to move higher, community banks will see significant capital reductions.

The loss of Deferred Tax Assets (DTA's) would be another blow to our Balance Sheet and capital recovery plans. We raised much needed capital through the issuance of debentures with a 5% rate, which increases .25% per year until paid in full, and the mechanism we hoped to use to pay a portion of these back was through the recapture of lost DTA's. This will greatly hinder our ability to pay back what we already owe, and then require us to raise additional capital on top of that.

Raising risk weights on residential loans will have an estimated impact of increasing RWA's by $13MM or 56%. We believe this will impair home financing by raising borrowing rates and limiting borrower access to financing. Additional impaired home financing is not what we need in Florida.

The high volatility CRE impact on RWA's is significant ($10MM) and is particularly punitive to Florida banks.

Also, higher risk weights for nonperforming loans only duplicate the purpose of allowance for loan losses and are pro-cyclical. The pro-cyclicality of our Balance Sheets is the greatest safety and soundness issue being faced by our bank and industry at-large. When things get bad, the current accounting and regulatory rules make them worse. This is another example of that.

Allowance for loan losses inclusion in total capital should not be capped at 1.25% of assets. If this promotes Balance Sheet padding or buffering, I would think we should support more of it, not less. Some, if not all, of the allowance for loan losses should be included in tier 1 capital since it represents the first line of defense against capital-absorbing losses.

We cannot think of worse timing for the proposed capital rules for a Florida community bank. Additionally, we are asking ourselves why anyone would want to increase their investment when there is an increased increase risk perception and expected lower returns.

Sincerely,

Carey Soud

Carey Soud
President

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

Summary and Timeline

FIRST BANK	9620	CLEWISTON, FL	$239,466

Summary Estimates for Fully Phased-in Proposals (as of 2022) - Comparisons

Dollar Amount (000)	Current Rules	Basel III Rules Only	Basel III and Standardized
Common Equity Tier 1 Capital	n/a	$18,922	$18,922
Tier 1 Capital	$18,961	$18,922	$18,922
Tier 2 Capital	$2,236	$2,236	$2,236
Total Capital	$21,197	$21,158	$21,158
Risk-Weighted Assets	$177,295	$178,085	$205,577
Average Assets	$231,843	$231,716	$231,716

Basel III and Standardized RWA =	
Standardized RWA	$205,704
Plus Items Currently Disallowed/Neutralized	$1,938
Less Basel III Adjustments	$2,065
Total Combined RWA	$205,577

Regulatory Ratios	Current Rules	Basel III Rules Only	Basel III & Standardized
Leverage Ratio	8.18%	8.17%	8.17%
Common Equity Tier 1 Capital Ratio	n/a	10.63%	9.20%
Tier 1 Capital Ratio	10.69%	10.63%	9.20%
Total Capital Ratio	11.96%	11.88%	10.29%

Phase-In Timeline Comparison with Minimums (including Capital Conservation Buffer beginning in 2016)

Select Proposed Change(s) to Current Rules --> Basel III and Standardized

	2013	2014	2015	2016	2017	2018	2019
PCA Category	Well	Well	Well	Well	Well	Well	Well
Conservation Buffer Maximum Payout	n/a	n/a	n/a	No Limit	No Limit	No Limit	60%
Leverage Ratio	8.11%	8.11%	8.12%	8.13%	8.14%	8.17%	8.17%
Common Equity Tier 1 Capital Ratio	10.63%	10.64%	9.22%	9.23%	9.24%	9.20%	9.20%
Tier 1 Capital Ratio	10.63%	10.64%	9.22%	9.23%	9.24%	9.20%	9.20%
Total Capital Ratio	11.89%	11.90%	10.31%	10.32%	10.33%	10.29%	10.29%
Capital Conservation Buffer				2.32%	2.33%	2.29%	2.29%

Standardized Approach Inputs

FIRST BANK	9620	CLEWISTON, FL	$239,466

The tool estimates RWAs under the Standardized Approach by adjusting current RWAs for the categories listed below. This sheet asks for four different types of inputs: gross exposures, current RWAs, RWAs under proposed rules, and changes in RWA. Carefully determine the input required for each cell.

Risk-Weighted Assets			(000)
Current Risk-Weighted Assets			$177,295
1-4 Family Residential Real Estate Risk-Weighted Assets			$23,626
Securitization Risk-Weighted Assets			$0
Securitization Risk-Weighted Assets under Proposed Rules			
SSFA Method			$0
Gross-up Method			$0
1250%			$0
	Risk Weights		
1-4 Family Residential Real Estate	**Current**	**Proposed**	**Exposure**
Category I by LTV range:			
Less than 60%	50%/100%	35%	$2,842
60 to 80%	50%/100%	50%	$12,864
80 to 90%	50%/100%	75%	$6,390
Over 90%	50%/100%	100%	$24,745
Category II by LTV range:			
Under 80%	50%/100%	100%	$0
80 to 90%	50%/100%	150%	$0
Over 90%	50%/100%	200%	$0
Past-Due and Nonaccrual Loans (excl. 1-4 Family RRE)	100%	150%	$1,962
High Volatility Commercial Real Estate (current only)	100%	150%	$19,743
Equity Exposures			
Change in risk-weighted assets			$0

Risk-Weighted Assets	CCF/Risk Weight		(000)
	Current	**Proposed**	**Exposure**
Credit Conversion Factors (CCF)			
Commitments with an original maturity less than 1 year that are not unconditionally cancelable	0%	20%	$16,508
Collateralized Transactions, where collateral is:			
Cash on deposit at the bank or third party custodian	20%	0%	$0
US Government securities (discounted by 20%)	20%	0%	$0
Investment grade debt securities			
Securities subject to a 20% risk weight (excluding GSEs)		20%	$0
Securities subject to a 50% risk weight		50%	$0
Securities subject to a 100% risk weight		100%	$0
Other collateralized transactions not covered above			$0
Other (Optional input)			$0
Threshold Items Not Deducted from CET1			$917
New Adjustments			$27,493
Risk-Weighted Assets under Standardized Approach			$205,704

Basel III Approach Inputs

FIRST BANK	9620	CLEWISTON, FL	$239,466

Common Equity Tier 1 (CET1) Capital	(000)	(000)
+ Qualifying common stock instruments and related surplus		$9,099
+ Retained earnings		$11,800
+ AOCI		$88
+ Qualifying common equity tier 1 minority interest		$0
- Gains / Losses on Cash Flow Hedges related to items that are not fair valued		$0
- Goodwill and other intangibles (other than MSAs)		$0
- DTAs arising from operating loss and tax credit carryforwards		$2,065
- Change in fair value of financial liabilities		$0
- Investment in institution's own CET1 capital instruments and reciprocal holdings		$0
- Securitization gain on sale		$0
- Non-significant investments in the form of common stock	$418	$0
- Regulatory deductions due to insufficient additional tier 1		$0
Mortgage Servicing Assets (MSAs)		$0
DTAs arising from temporary timing differences		$611
Significant investments in the form of common stock		$0
- Deductions due to 15% threshold		$0
- Minimum MSA deduction (10% of FV of MSAs)		$0
= Common Equity Tier 1 Capital		**$18,922**

Tier 1 Capital	(000)	(000)
+ Additional tier 1 capital instruments plus related surplus		$0
+ Tier 1 minority interest not included in CET1 capital		$0
Non-qualifying tier 1 capital instruments subject to phase-out	$0	
- Investment in institution's own tier 1 capital instruments and reciprocal holdings		$0
- Significant investments in additional tier 1 instruments		$0
- Non-significant investments in additional tier 1 instruments	$418	$0
- Regulatory deductions due to insufficient tier 2 capital		$0
= Tier 1 Capital		**$18,922**

Tier 2 Capital	(000)	(000)
+ Tier 2 capital instruments		$0
+ Total capital minority interest that is not included in tier 1 capital		$0
+ Estimated ALLL includable in tier 2		$2,236
- Investments in institution's own tier 2 capital instruments and reciprocal holdings		$0
+ Non-qualifying tier 1 capital instruments includable in tier 2		$0
- Significant investments in tier 2 instruments		$0
- Non-significant investments in tier 2 instruments	$0	$0
= Tier 2 Capital		**$2,236**

Total Capital		(000)
= Tier 1 Capital + Tier 2 Capital		**$21,158**

Risk-Weighted Assets		(000)
Current Risk-Weighted Assets		$177,295
+ Items currently disallowed or neutralized		$1,938
- Basel III regulatory adjustments and deductions		$2,065
+ Threshold items not deducted		$917
Basel III Risk-Weighted Assets		**$178,085**