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**FIRST NORTHERN BANK**

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October 19, 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 that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

First Northern Bank is an $820 million, state-chartered bank established in 1910 located in the heart of the Sacramento Valley. The Bank's focus is on providing financial services to small to medium sized businesses. The Bank also specializes in lending to agribusiness. The Bank is ranked as one of the top small business and small farm lenders in the region (based on 2011 CRA data). We also received an "Outstanding" Community Reinvestment Rating at our last FDIC examination in 2011 specifically in the area of community development. We have 200 employees that have strong community involvement recording over 7,780 hours of community service in 2011. We believe our reason for existing as a community bank is to build long-lasting relationships with our customers where we can address specific financial needs on a personalized basis, provide opportunities for our employees, and be committed and passionate about making a difference in our communities. We are extremely concerned about the effects of Basel III and the impact it will have on our ability to fulfill our purpose while producing a reasonable return for our shareholders.

As of June 30, 2012, the Bank had a Tier 1 Leverage Capital of 10.1%; Tier 1 Risk Based Capital of 16.5%; and Total Risk Based Capital of 17.8%.

Our first area of concern has to do with the Basel III NPR proposal that a Bank's unrealized gains and losses on Available-For-Sales (AFS) be included in the common equity Tier 1 computation. Currently, the Bank has approximately $200 million in securities with two-thirds of it invested in high-quality, U.S agency securities (U.S. Treasuries, U.S. Agencies, GSE-issued MBS products). The current approximate duration is 1.6 with a gain on the sale of $3.4 million. The bonds have little or no credit risk, but are subject to interest rate risk which we manage and monitor very closely (these assets should also be included in the zero percent risk weighting). Based on our interest rate risk model projections as of June 30, 2012, an immediate 300 basis point interest rate increase would result in a mark-to-market adjustment to capital of $7 million. While we would continue to remain well capitalized, it could result in increased regulatory scrutiny and create a general cause for concern which we believe is unnecessary since nothing changed except market interest rates. In addition, this could also result in a decrease in the Bank's interest margin due to shortening the duration of the securities portfolio and/or limiting security purchases specifically in the agency backed mortgage securities.

The next area of concern is the substantial increase in the Risk Weighting Asset Amount for residential mortgages. Our Bank provides a significant amount of mortgages in our markets. The Bank's portfolio holds 12% in first mortgages and 13% home equity lines with a $221 million in mortgage loans sold with servicing retained. The historic loss rate for portfolio mortgages and home equity lines have been very low. While the Bank's mortgage and home equity underwriting in the past has been prudent, the bank didn't record the loan-to-value for each loan in its system at the time of origination for each loan. Therefore, it is not really possible to accurately breakdown whether a mortgage loan is category 1 or 2. Since these proposed new methodologies of risk weightings apply to previously booked loans, the weighting will depend exclusively on data that is contained in loan files verses how it is currently evaluated at the asset class level. It would be extremely burdensome and costly to obtain and maintain this information in the future. It is also important to note that we take residential properties as additional collateral for small business loans which could subject the entire loan balance to the over 100% risk weighting category. Overall, these new risk weightings would cause us to reconsider our current residential loan product offerings especially home equity lines of credit which may have the effect of limiting credit availability in our marketplace and which could possibly lead to increasing the cost to the consumer.

Our next concern is the increased risk weighting on delinquent loans. The proposal of increasing the risk weighting on past due loans has the double effort for most banks of decreasing capital while at the same time we are holding large amounts in our loan loss reserve. This should continue to be done through loan loss reserve. In addition, the limitation of 1.25% of risk-based assets in the loan loss reserve should be eliminated.

A further concern is the treatment of some off balance sheet items that are proposed to be transferred from off-balance sheet to on-balance sheet. The application of an applicable credit conversion factor to sold mortgage loans (pipeline) with some credit-enhancing representations and warranties is unwarranted. The reps and warranties have a very early payment default (typically within the first 120 days of the new mortgage loan). Our bank originates, sells and retains servicing on 15 and 30-year mortgages to Freddie Mac and has done so for the past 25 years. Today we estimate that this rule would require us to add $37 million in pipeline mortgages to the applicable risk weighted asset category which results in a decrease in risk-based capital. Our history is that we have experienced zero very early payment defaults even during the recent economic downturn. We believe this treatment is unnecessary and adds more complexity to the process further constraining our ability to offer mortgages in our marketplace.

The same holds true for off-balance sheet loan commitments. Currently, if the loan maturity is over one year, an applicable credit conversion factor is applied to the unadvanced loan commitment and if the loan is less than one year there is no credit conversion factor is applied. In the Basel III NPR, unadvanced loan commitments with less than a one year maturity would be subject to a 20 percent credit conversion factor. This would negatively impact us since we provide many small businesses with a line of credit to operate their business. As of June 30, 2012, it would require us to transfer an additional $23 million from off balance sheet unadvanced loan commitments to the 20% risk weighting category resulting in a reduction to risk-based capital. In our history, the unadvanced loan commitment amount has remained constant even during the economic downturn. This would further limit the Bank's ability to provide lines of credit to small businesses and making it more difficult for many small business borrowers to obtain credit.

Our final concern is in addressing the overall complexity in following the rules of Basel III. Most small banks like ours simply don't have the systems or staffing available at a reasonable cost to comply with the intricacies of what is being proposed. It will add more cost and increase the regulatory burden for all of those involved while limiting credit availability in our markets and others.

In closing, we are in favor of strengthening the quality and loss absorption safeguards in the financial institutions sector. However, we believe the cumulative effects of Basel III along with its intricacies, cost and complexity will have a significant impact on most community banks in our county. We urge you to consider the impact and the possible exemption for community banks from the bulk of these rules. This will allow us to continue to do what we have done for over the past 102 years, and the same holds true for many community banks, which is to continue to provide credit to small businesses to foster their growth who in turn employ individuals who live in our communities.

Sincerely,

Louise A Walker

Louise A. Walker
President and Chief Executive Officer