GUARANTY BANCORP℠

October 22, 2012

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Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

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

RE: Basel III Proposal Comment Letter
Guaranty Bancorp

Ladies and Gentleman:

The purpose of this letter is to provide comment on the Agencies' joint notices of proposed rulemaking ("NPRs") to implement agreements reached by the Basel Committee on Banking Supervision in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems, December 2010 ("Basel III Accord"), consistent with provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). The three NPRs are together titled Regulatory Capital Rules and individually subtitled Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (Basel III NPR), 77 FR 52792 (August 30, 2012); Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements (Standardized Approach NPR), 77 FR 52888 (August 30, 2012); and Advanced Approaches Risk-Based Capital Rule; Market Risk Capital Rule (Advanced Approaches and Market Risk NPR), 77 FR 52978 (August 30, 2012). Our comments focus on the Basel III NPR and the Standardized Approach NPR.

Guaranty Bancorp is publicly traded bank holding company headquartered in Colorado with total assets of $1.8 billion. The holding company operates a single subsidiary, Guaranty Bank and Trust Company. Through a network of 28 branches located along the Colorado Front Range, the Bank offers an array of banking products and services to the local community.

In this letter we will address the following components of the NPRs, including the impact on our bank and the local communities we serve.

- Inclusion of unrealized gains and losses of Available for Sale ("AFS") securities in Tier 1 Common Equity (Basel III NPR)
- Phase-out of inclusion of Trust Preferred Securities from Tier 1 Capital (Basel III NPR)
- Proposed changes to certain risk-based asset weighting (Standardized Approach NPR)

Available-for-Sale Securities-Inclusion in Tier 1 Common Equity

One of the provisions to the Basel III NPR would require banks such as ours to include any changes in unrealized gains and losses on securities available for sale as part of our Tier 1 Common Equity. We believe that this provision would be harmful not only to our bank, but to all banks.

Our Bank holds approximately $450 million in debt and equity securities, $415 million of these securities are classified as available-for-sale with an average yield of 2.6%. Historically, the primary cause of the change in unrealized gains and losses in this portfolio is the result of fluctuations in interest rate, rather than changes in credit risk. The results of our stress testing indicate a great deal of volatility in the unrealized gains and losses related to these securities in a variety of interest rate environments. For example, a 300 basis point increase in interest rates over a twelve month period would result in a decrease in the value of our AFS portfolio of $58.1 million or 14%. The volatility in value of our securities portfolio related to changes in interest rates could cause significant fluctuations in our capital ratios. To mitigate these fluctuations in our capital ratios, we are considering classifying our securities as held-for-investment rather than available-for-sale.

Several potentially negative consequences emerge as a result of adopting this classification method. First, our ability to hold a cushion of marketable liquid assets would be limited, hindering our liquidity position.

Secondly, we use our securities portfolio to manage our overall interest rate risk sensitivity by shortening or lengthening duration and cash flows when necessary to affect the balance sheet's overall sensitivity. Third, the economic value of other earning assets and interest-bearing liabilities is completely ignored under the current proposal. A balance sheet strategy for a financial institution that makes the most economic sense is one that employs natural hedges where the duration of liabilities offsets most of the duration of assets. By forcing the Bank to adjust capital to reflect changes in value on the asset-side of the balance sheet, while ignoring the liability-side, it gives a distorted picture of the Bank's inherit risk. This will force the Bank to misallocate resources/capital and fundamentally weaken the financial strength of the bank.

Finally, our bank may be less flexible when reacting to the needs of our local customer base due to our inability to fully manage a significant portion of our balance sheet.

We argue against the inclusion of the available-for-sale adjustment within capital. Currently, the capital position reflects changes in investment value in which the initial investment is not expected to be fully recovered through the other-than-temporary impairment process under GAAP. The residual changes in unrealized gains and losses are transitory. With the passage of time, these investments will return to par value given our ability to hold them to recovery.

Trust Preferred Capital Treatment

Another provision to the Basel III NPR would require banks such as ours to phase-out the inclusion of trust preferred instruments when computing our Tier 1 Capital. We believe that this provision would be harmful to smaller community banks such as ours. Therefore, we recommend that you continue to grandfather in the inclusion of such trust preferred instruments consistent with the Dodd Frank Act.

Our holding company holds $40 million in trust preferred instruments that were issued between 2000 and 2004 and currently contribute 18% to our overall consolidated Tier 1 capital of $221.8 million.

The key purpose of capital is its ability to absorb losses, providing some protection to creditors and depositors. While common capital and the allowance for loan and lease losses provide the highest quality buffer, non-common equity components also serve this purpose. For example, noncumulative preferred stock can stop the payments of dividends and trust preferred instruments permit distributions to be deferred. The regulatory capital rules have always permitted up to 25% of these restricted core capital elements to be included as Tier 1 Capital. Further, the Collins amendment to the Dodd Frank Act continued such treatment for trust preferred instruments to bank groups with less than $15 billion in total assets.

Under the full phase-out of trust preferred inclusion in regulatory capital, our Tier 1 capital would decrease from 15.2% to 10.8% as of June 30, 2012. If the current proposal is approved in its current form, we would consider replacing the loss of "capital" by issuing new stock, causing immediate dilution to our current shareholders. Alternatively, we may determine that we would not replace a portion of the lost "capital", potentially resulting in less credit available to our local communities.

Again, we support a recommendation to grandfather existing trust preferred instruments inclusion in capital for institutions under $15 billion in total assets, as consistent the Collins amendment to the Dodd Frank Act. Our trust preferred securities serve as an important source of capital to our company, our bank and our community, by allowing us to support our local customers through the origination of commercial and consumer loans.

Changes to Risk-based Asset Weighting

One of the provisions to the Standardized Approach NPR would require banks such as ours to change the way we risk weight certain residential mortgage loans.
Our bank's risk-weighted assets would increase based on the proposed increases to risk weightings of residential mortgage loans. We have $133.3 million in 1-4 family and revolving home equity loans currently risk-weighted at 50%. Under the current proposal, the majority of these loans would be considered category 2 loans, primarily due to the balloon payment feature. As a result, these loans would move from a risk-weighting of 50% to a risk-weighting between 80% and 200%, depending on the loan's particular loan-to-value. The change in risk-weighting may require that our bank hold an

additional $13.3 million in regulatory capital. The higher capital cost of these types of loans will most likely impact our bank's willingness to make these loans in the future, potentially causing our customers to move to non-banks or larger banks with greater access to capital.

We propose that our current 1-4 family and revolving home equity loans be grandfathered into the current risk-based weighting at 50% rather than impose the proposed higher risk-weighted structure on existing loans. This would allow our bank to adjust structure or pricing effectively in light of the new capital treatment.

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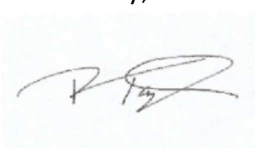
In conclusion, we appreciate the opportunity to provide comment on the capital proposals as presented and look forward to working toward a viable solution. We promote our bank as a local, responsive, community bank and work with our customers to find the best solutions to meet their lending and cash management needs. We understand the need for improvement in the current regulatory capital structure; however we hope to minimize the potential negative impact to our customers.

Sincerely,



Paul W. Taylor
President and CEO