IDAHO
DEPARTMENT OF FINANCE

C.L. "BUTCH" OTTER
Governor

GAVIN M. GEE
Director

October 22, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
RIN 3064-AD96

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket No. R-1442;
RIN No. 7100-AD87

Office of the Comptroller of the Currency
250 E Street, SW, Mail Stop 2-3
Washington DC, 20219
Docket ID OCC-2012-0009

RE: COMMENT ON AGENCIES' PROPOSED RULE TO IMPLEMENT THE BASEL III CAPITAL ACCORDS

Dear Sir or Madam,

The Idaho Department of Finance appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC's), the Board of Governors of the Federal Reserve System's (FRB's), and the Office of the Comptroller of the Currency's (OCC's) (collectively, "the Agencies") joint Notice of Proposed Rulemaking (NPR, proposal, or proposed rule) to implement the Basel III capital accords, entitled *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action.* Our Department is the chartering and regulatory authority for Idaho state chartered banks and bank holding companies.

Our Department generally supports your efforts to reform capital requirements. We believe there is merit in increasing the minimum capital requirements. We are not supportive of Basel III in its current format: It is excessively complex and it is likely to have an adverse impact on general risk taking, discourage mortgage lending to some segments, reduce overall lending capacity,

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generally increase funding costs, introduce volatility to capital levels, and reduce the appetite for equity investments in banks.

The proposed increase in required Tier 1 Leverage Capital ratios will help mitigate risk exposure across the banking system. The impact on our institutions will not be significant since most community banks already exceed these new requirements. Because larger money-center institutions generally hold relatively small amounts of capital, we believe this will help level the playing field for different sized banks.

The changes in risk weighting for residential mortgages by introducing two categories will reduce the availability of these products to our citizens. Currently, these loans are risk weighted at 50 percent. But, the new Category 2 loans will be risk weighted up to 200 percent. This category is not comprised of just relatively riskier products such as non-traditional mortgages that caused much of the recent turmoil in those markets. It also includes relatively commonplace loans such as Adjustable Rate Mortgages and Home Equity Lines of Credit loans. The higher required capital coverage for these products will incent management to avoid offering these important loans.

Much has been written recently about the Federal government's efforts to encourage new lending by banks. Increasing capital and liquidity requirements will necessarily reduce the industry's capacity to lend. Also, because of the higher costs associated with these new limits, the costs to the consumers for credit will also likely rise.

When FASB No. 115 - Accounting for Certain Investments in Debt and Equity Securities was introduced in 1993 the banking industry was assured by regulators that unrealized gains and losses on Available-For-Sale debt securities would not be used for regulatory capital purposes. This had the important effect of reducing the volatility of the capital levels and thereby causing potential exposure to Prompt Corrective Action restrictions. The proposal would have these effects impacting capital directly to common equity Tier 1 capital. Introducing volatility and additional exposure to the effects of changes in interest rates can only increase systemic risk, which runs counter to the asserted purposes of this proposal.

Finally, because the industry will have to divert earnings that would otherwise have gone to dividends to build capital, and because overall return on equity will likely decline because of increased funding costs, equity investors will be less likely to be attracted to the banking industry. Inevitably, the cost of capital will rise at a time when the industry is just emerging from crisis mode and is actively seeking capital to expand and provide necessary services and loans.

In conclusion, we recognize the importance and need to change capital regulations to reduce systemic risk and to prevent a recurrence of the turmoil that has rocked the markets for the last few years. However, because of the importance of this undertaking we strongly believe that due care should be exercised in developing and implementing solutions that don't exacerbate risk and place excessive burdens on the community banking system. We ask that you revisit this proposal and adopt one that is consistent with the requirements for community banks and easier to understand, implement and manage.

Sincerely,

Gavin M. Gee
Director of Finance

Cc: Honorable C.L. “Butch” Otter, Governor
Honorable Mike Crapo, U.S. Senator
Honorable James E. Risch, U.S. Senator
Honorable Mike Simpson, U.S. Representative
Honorable Raul Labrador, U.S. Representative
Dawn Justice, President & CEO, Idaho Bankers Association
Dan Heiner, President, Idaho Community Bankers Association
John Ryan, President & CEO, Conference of State Bank Supervisors