

October 15, 2012

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 proposals¹ 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.

There are a few points I would like to touch on, including capital conservation, new risk weights and mortgage servicing rights. The implementation of capital conservation buffers for community banks will be difficult to achieve under the proposal and therefore should not be implemented. Community banks do not have ready access to capital that the larger banks have through the capital markets. Due to the current low interest rates, community bank profitability has diminished further hampering their ability to grow capital.

The proposed new risk weights will penalize community banks and jeopardize the housing recovery. Increasing the risk weights for residential balloon loans, interest-only loans and second liens will penalize community banks who offer these loan products to their customers and deprive customers of many financing options for residential property. Many community banks will either exit the residential loan market entirely or only originate those loans that can be sold to a GSE.

In addition, penalizing the existing mortgage servicing assets under the proposal is unreasonable for those banks that have large portfolios of mortgage servicing rights. Therefore, any mortgage servicing rights existing on community bank balance sheets should be allowed to continue to follow the current risk weight and deduction methodologies.

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.*

In closing, community banks have managed to take the burden for large banks wrong doing again. Basel III is a prime example of the next attempt to push community banks out the door.

Jennifer Jackson
First National Bank