AMERICAN BUSINESS BANK®

Wes Schaefer
Vice Chairman

August 23, 2012

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

RE: Comments on FIL 25-2012 (RIN 3064-AD95)
FIL 27-2012 (RIN 3064-AD96)

Dear Mr. Feldman:

American Business Bank, Los Angeles, California, respectfully submits the following response to the Federal Deposit Insurance Corporation's request for public comment regarding the above captioned regulatory guidance that is currently proposed. The proposed new rulemaking would make the most significant changes in the treatment of bank capital in over twenty years.

American Business Bank (ABB) is a California state-chartered bank that is headquartered in Los Angeles and regulated by the FDIC and the California Department of Financial Institutions. We operate with a headquarters office and four loan production offices. Our Bank was formed in 1998 with its current asset size of approximately $1.250 billion, all of it organically grown. Our business model's focus is to serve middle-market businesses in the Los Angeles, Orange and San Bernardino counties in Southern California.

We are concerned with the potential impact that some of the new policies outlined in the proposals will have on small, independent banks and in particular, our own Bank. We applaud the efforts to ease the potential excesses that have been seen in our industry over the past few years but we believe that the smaller, independent or "main street" banks were not the problem. The current proposal does not differentiate enough between the largest banks and the banks making up the community banking system that is unique to our country.

Investments

The inclusion of the accumulated other comprehensive income (AOCI) in the calculation of Tier 1 capital would potentially have a serious and likely adverse impact on our Bank and many other community banks. For ABB in particular, our business model tends to make us core deposit gatherers, as many customers leave their operating balances in our bank and borrow far less than they provide in balances. This business focus tends to equate to a low loan-to-deposit ratio and ABB's ratio is around 40%. As a result, our investment portfolio is approximately 60% of the

Bank's assets. The securities that we invest in are SBA loan pools, GNMA MBS securities and local government municipal issues. Eighty percent of the investment portfolio is fully guaranteed by the U.S. government.

Regardless of the credit quality, the short duration (2.5 years) and the inclusion of variable rate pools along with fixed rate instruments, the market value of the portfolio will change with movements in interest rates and therefore will produce OCI, either positive or negative. Currently, this AOCI would add $14 million in additional capital to the Bank's Tier 1 capital calculation if the new rules were in place. On the other hand, a rising rate environment would have the opposite effect, and what would be additive could quickly become a deduction, all based on calculated market values of securities owned that would themselves be subject to questions of their actual bid/ask value. For our size Bank, these large potential changes in our capital accounts is not in anyone's best interest.

Under the new rules, the Bank would have to look at investing in securities that would have very short maturities or variable rate products that produce little in yields currently and historically. This would have the effect of lowering earnings, thus lowering retained earnings, and therefore reducing additional capital for the bank. At ABB, we believe that we have structured our investment portfolio to have very little credit risk, acceptable interest rate risk and yet produce a reasonable rate of return. The ability to manage the portfolio into this position would have been restricted under the proposed rules.

There is also the effect the inclusion of AOCI would have on bank's running of its Economic Value of Equity (EVE) models. Including the AOCI account in a model's upward rate scenarios would generate reductions in calculated capital that would signal users of the EVE reports, including an examiner, that more capital is needed than may really be necessary.

It is our belief that the inclusion of the AOCI in the Tier 1 calculation should be eliminated. The AOCI account basically estimates the change in the value of the investment portfolio using monthly pricing inputs obtained from numerous sources as estimates of the true bid/ask price. Not included in the proposals is the effect of the change in neither a bank's liabilities nor its loans, which may provide an offset to the effects of the AOCI account if they were measured.

As an alternative, if the AOCI continues to be included in the rule then it could reduce the potential volatility if any OCI generated by the securities portfolio was limited by not including gains and/or losses in market value where the security is a non-complex, non-structured: obligation of the U.S. and carries the government's full faith and credit guarantee; an obligation of an agency of the U.S. government; an obligation of any state in the U.S. with the state's full faith guarantee; or, the security is issued by a city or school district, with the designation of a bank qualified, general obligation, without limitation, of the city or district.

Loans

The proposed rule also makes some changes to the risk-weighted measurements for residential exposures, construction loans and for non-accrual or past-due 90 day loans.

Category 1 and Category 2 residential loans would be risk-weighted depending on their LTV ratio. This would require data-base, system and procedural changes in order to properly track the LTV ratios. Capital requirements are proposed to be leveled based on these LTV ratios on a sliding scale, from 35% to 200%. Due to operational difficulties associated with complying with the proposal and its limited benefits, we believe that it should be eliminated or modified further. We would also note that the collateral in a real estate loan is not the source of repayment; it is the borrower. Therefore, the relevance of the LTV as an indicator of potential loss may appear to be valid in light of recent defaults that have occurred recently, but is that an actual cause and effect or would the outcome change if the underlying credit analysis of the borrower were done with more diligence?

The risk weight for construction loans will increase from 100% to 150%. In our experience, a well written construction loan that is properly monitored would not warrant the proposed increase in the capital requirement. This increase in the capital requirement could also lead to fewer loans being generated by banks.

The changes contemplated for both the construction loans and the residential mortgages could have a chilling effect on banks that currently provide these loans, which we believe to be an unnecessary and unintended consequence.

The proposal also requires 150% capital for the amounts of loans that are on non-accrual or are 90 days or more past-due. We believe that the increase in the risk weight for these assets is not required as they should have already been accounted for under the methodology used in a bank's ALLL.

We appreciate the opportunity to provide our comments on this critically important set of proposals and thank you for your consideration of our concerns. Please contact me at 213-430-4008 or via email at wschaefer@americanbusinessbank.com if questions regarding the information in this comment letter arise.

Sincerely,

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