FIRST FINANCIAL BANK

Tom O'Neil
Chief Executive Officer

October 18, 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").

As a community banker, I strongly support a sound financial system founded on strong bank capitalization. I hope to continue serving my community by providing flexible credit products to spur economic activity and a path to home ownership. I fear the proposal as it stands with regard to community banks will impair out ability to do so.

While I view many of the proposals problematic and detrimental to the ability of community banks in serving their communities, the following items provide me with the greatest concerns:

1. Requirement that gains and losses on available for sale securities must flow through to regulatory capital.

   Like many banks, my investment portfolio contains a large portion of securities that are designated available for sale. Many of these securities are pledged to secure our city, school, and county public funds. While we today enjoy gains within this portfolio due to the existing low interest rate environment, those gains will reverse once rates rise leading to a decline in

200 N. RIDGEWAY • P.O. BOX 537 • CLEBURNE, TEXAS 76033-0537
(817) 202-3182 • FAX (817) 641-1603 • toneil@ffin.com

regulatory capital ratios. Shrinking capital, from a regulatory standpoint, could force us to contract our balance sheet and impair our ability to provide credit to our local markets at a time when markets are improving and our customers need our help.

2. Increased risk weighting for residential mortgage loans

   One of the things I learned from the watching S&L crisis of the 80's was to avoid funding long term home loans with short term funding sources. As a result, it has become a common practice for me and many banks to place balloons on existing in-house mortgage loans at 3 to 7 year intervals in order to manage that risk. Under the proposal, these types of mortgages would become "Category 2" and become subject to risk weighting between 100% and 200% only because the balloon feature. Ironically, the result of this rule would be to penalize a bank for trying to manage its interest rate risk in order to protect profitability, capital, and ultimate viability.

Thank you again for allowing me this opportunity to respond. Please reconsider adoption and implementation of the Basel III Capital Proposals.

Sincerely,

Tom O'Neil, CEO
First Financial Bank, N.A.