FIRSTAMERICAN
Your Community Bank Since 1903

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October 18, 2012

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

Dear Mr. Feldman:

RE: FDIC RIN 3064-AD95 (Basel III NPR) and RIN 3064-AD96 (Standardized Approach NPR)

First American Bank is a state chartered New Mexico community bank. First American Bank serves 12 local communities in NM, east Arizona and west Texas. First American Bank is classified as an S Corporation. We proudly serve our communities and customers. Our shareholders, directors, executive officers, employees and most importantly our customers request that the Federal Deposit Insurance Corporation ***"EXEMPT"*** community banks from the Basel III and Standardized Approach for Risk Weighted Assets proposed regulations. The exemption threshold should be at minimum 10 to 15 billion dollars.

The proposed rulemaking outlined in Basel III is punitive, a step backward, unproductive and impacts negatively our local business markets and consumer customers. Basel III directly creates disincentives for investors in S Corporations and will have direct and unintended consequences. These consequences will further slow economic activity across the state of New Mexico, the local communities we serve as well as main street USA. We do support strong capital standards and generally support the proposed common equity ratio concept. Additional specific comments and areas of concern are as follows:

1). Placing tiered dividend restrictions on S Corporation banks will have a direct impact on shareholders and potential future investors. Basically Basel III will restrict and potentially eliminate access to new capital for S Corporation community banks. The proposed rules create a disincentive for S Corporation banks by enacting forced reductions and the potential elimination of dividends for our existing shareholders. Specific consideration for differences in C Corporation and S Corporation tax liability is needed. If the proposed rules are implemented then restrictions on dividends for S Corporations should only be considered after basic investor tax liabilities have been satisfied, except where prompt and corrective action thresholds have been imposed.

This risk to S Corporation shareholders is real and is significant. The risk is amplified by our extended low interest rate environment. As proposed, including the AOCI (accumulated other comprehensive income) in the proposed common equity ratio there would be an immediate positive impact on the common equity capital ratio. The positive impact is the result of current gains imbedded in the investment portfolio due to historic low interest rates. However an interest rate increase of 300 or 400 basis points would drive investment portfolio market values down and thus negatively impact common equity capital ratios. The resulting volatility of common equity capital along with potential dividend restrictions would force our community banks to raise loan rates and force us to limit or eliminate lower yield, longer term business and consumer mortgage loans. Many community banks, including ours, have grown their investment portfolios due political and economic uncertainty. This uncertainty creates soft loan demand. Market value volatility for US Treasury bills and bonds along with Government Agency securities and General Obligation Municipal bonds should be excluded from the AOCI common equity ratio. Our recommendation is to remove AOCI from common equity all together and use the tangible equity to tangible assets ratio as a better financial measurement tool for the US community bank sector. Our holding company has strong stable earnings and capital today. Simply put with the new Basel III capital requirements and proposed risk weighting changes, our holding company would be adequately capitalized and subject to regulatory scrutiny just because of an up 400 basis point shift in interest rates. We would also be forced to restrict dividends to our shareholders. Only new capital standards with an AOCI component with asset risk weight changes were modeled. There is no increase in asset risk on the balance sheet, no core change in earnings, just adequately capitalized due to new rules.

2). The Basel III proposed rulemaking takes deep cuts at eligible capital. The existing allowance for loan loss cap of 1.25% of risk weighted assets eligible for Tier 2 has been ignored. Many community banks have excess reserves and those that have survived the volatile real estate markets in various parts of our country have been building back their allowance for loan loss reserves. The regulatory agencies should finally agree to phase out the 1.25% cap entirely for Tier 2 capital. The loan loss reserve is a community bank's buffer for national economy and local market real estate value fluctuations.

3). The standardized approach notice of proposed rulemaking issued by the agencies regarding complex risk weights for residential mortgages and HVCRE (high volatility commercial real estate)should be reconsidered. A solution would be to increase risk weights from current Basel I risk weights for loans that are identified as concentrations as a percentage of capital. For example, if a community bank has loan growth of 10% or greater in a specific concentration as a percentage of unimpaired capital then increased risk weights should apply while the increased concentration exists. So for construction and land development loans and\or 1-4 family mortgage loans that are concentrations for a community bank, additional risk weights would be applied for the increased risk, not just a blanket risk weight increase.

4). The Basel III proposed rulemaking establishes potential double and triple counting of problem credits. This double and triple counting is the result of the addition of the 150% risk weight for 90 day delinquencies, additional risk exposure created through increased capital adequacy guidelines and the specific dollar allocations already required in the allowance for loan loss accounting rules.

5). All of the issues identified above are compounded with the increased regulatory capital minimums that have proposed buffers being phased in to further increase capital requirements. The direct impact to our lending capacity modeled using a static 50% loan to asset ratio, no additions to capital along with an increased capital requirement from 6.00% to 8.00% would result in the elimination of over $141 Million dollars in local loans for our bank alone. Forecast this across our nationwide community banks and the negative impact on our communities and national economy is staggering.

7). Furthermore the same concept outlined above directly correlates to a banks overall net income. The reduced ability to lend money reduces net income and Return on Equity. Now we directly reduce shareholder value due to regulation and further deteriorate current and future investor support for our banking industry.

The United States needs banks, savings and loans and credit unions of all sizes. The proposed rulemaking surrounding Basel III is forced regulatory uniformity and a one sized fit's all approach to capital adequacy. Basel III for community banking is a major step backward. Our communities are in desperate need for hope and balance. Please strongly consider these comments. Community banks should be ***EXEMPTED*** from Basel III and the proposed Standardized Approach for Risk-weighted Assets.

Thank you.

Brett Mills

Brett Mills
SVP\CFO

CC: Senator Jeff Bingaman
CC: Senator Tom Udall
CC: Representative Martin Heinrich
CC: Representative Ben Lujan, JR.
CC: Representative Steve Pearce
CC: ICBA
CC: ICBANM