High Country BANK

BUILDING FUTURES TOGETHER

October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219
regs.comments@occ.treas.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
comments@FDIC.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to proved 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").

High Country Bank is a $185 million community bank located in the central mountains of Colorado with four locations serving Chaffee and Fremont counties. We are a traditional community bank and for the past 125 years we have served the needs of towns such as Salida, Buena Vista and Canon City in the rural upper Arkansas River valley. The Bank, its directors and 63 employees take their role in the community very seriously and are committed to helping our communities grow as is demonstrated by our leadership as a lender, both commercially and residentially, and as a significant contributor of time and money to local charities and community development causes. Our roots are in residential lending, having started out as a savings and loan association, and we are far and away the leading residential mortgage originator in our market area. All of our commercial lending is to small locally owned and operated businesses ranging from construction to hospitality and river rafting. Without our home, small business and consumer lending our communities would suffer. Additionally, we work very hard to maintain high marks in safety and soundness, compliance and the related regulatory requirements.

Generally, I am highly concerned about the effects Basel III will have on our ability to continue to support and promote economic development in our area. While I believe that the capital requirements of Basel III may be appropriate for very large internationally active financial institutions that may pose a systemic risk to our economy, they are not appropriate for banks such as High Country and other small true community banks. To group community banks in same general class with these dramatically larger institutions appears to be inappropriate given the very different role community banks play in local economies. The higher capital requirements may force us and will force other less well capitalized banks to hold resources internally instead of providing the credit that consumers and small business will require, especially in small rural areas, to get this economy out of the doldrums.

Specifically and my first area of concern has to do with proposed treatment of unrealized gains and losses on available for sale securities. Like many other community banks deleveraging has impacted our loan-to-deposit ratio and we find loan demand to be very benign due to the current economic environment. As a consequence, we have had no alternative but to grow our investment portfolio which now totals approximately $28 million and has approximately $400 thousand of unrealized gains. We have a conservative investment philosophy and our portfolio has very little, if any, risk of loss but is of course subject to interest rate risk which we monitor and manage very closely. As of September 30, 2012 our Tier One Capital ratio was 11.7%. A 300 point increase in interest rates would result in a $1.5 million OCI unrealized loss and decrease in Tier One Capital to 10.9%. Even though this may be considered adequate capital, it is headed in the wrong direction and could be cause for regulatory scrutiny. Historically we have held our bonds to maturity but now are classifying new investments as available for sale to afford us liquidity management should loan demand pick up or deposit growth slow. If the bank has the capability to hold these assets until maturity it should not have to mark the gains and losses creating large swings in capital over normal business cycle changes in interest rates.

An ancillary concern would be the impact these capital fluctuations would have on our legal lending limits as, generally speaking; a bank's legal lending limit goes up and down with its capital. Typical of many smaller banks, we have many customers who borrow close to our current legal lending limit. Under the scenario outlined above, a significant drop in capital due to an investment mark to market would have the effect of lowering our legal lending limit by a meaningful amount and could limit our ability to serve our best customers, loose profitable business, lower earnings and thus dampen the growth of retained earnings and capital.

Second, the proposed changes to risk weighting for residential mortgages causes apprehension primarily because of concerns as to the availability of certain data necessary to calculate the risk weights. If was a forward looking proposal it would not be of as much of a concern but the rules a currently proposed would have to be applied to all loans already on the books. As mentioned above, our origins are as a building and loan association and we have always been a very important source for residential lending in our market area. As a result of this heritage approximately 48% of our loan portfolio is in residential loans many of which were made more than twenty years ago. Any final rule should grandfather existing mortgage exposures at current general risk-based capital requirements because of the availability of data to properly assign mortgage categories and the burden on small banks, even if old records are available, to examine data and properly calculate a LTV.

A third specific concern deals with the increased risk weighting on delinquent loans. This appears to a duplicative capital requirement in that delinquencies are already taken into consideration as part of the loan loss reserve analysis. As any community banker already knows failure to appropriately incorporate delinquency trends in the ALLL analysis to mitigate loss risk will result in not only regulatory criticism but potentially CDO and civil money penalties. The loan loss reserve is a more prudent and effective way to manage this situation. This redundancy in capital calculation is both unnecessary and unfair for community banks.

Similar to my concerns regarding the treatment of delinquencies, the increased risk weighting on certain commercial real estate loans appears to be redundant to capital requirements already in place. Again the appropriate mechanism to deal with this type of risk is through the loan loss analysis and associated reserve. The reserve provides the capital buffer required for the risk to capital inherent in these types of loans.

A final general concern with Basel III has to do with the overall complexity of the proposals and the resources that will be required to interpret, implement, aggregate data and comply with the rules and the disproportionate burden that places on the smaller community banks. The systems enhancements required to generate level of granularity to comply with Basel III will require yet another level of expenditure and resource commitment that will impact earnings and therefore capital growth.

I am proud of the role our bank has played in the growth of the local communities we service and I believe these proposed rules will greatly hinder our ability to do so if implemented. I also believe it is a huge mistake to group community banks in the same basket as the large domestic and foreign banks and to burden them with same regulatory requirements. A one size fits all is completely inappropriate.

Sincerely,

Thomas M. Mansheim
Chief Financial Officer
High Country Bank and
High Country Bancorp, Inc.