BankGuam Holding Company

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October 10, 2012

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

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

Secretary Johnson and Executive Secretary Feldman:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board and the Federal Deposit Insurance Corporation.

I am writing to register some of the concerns of BankGuam Holding Company (BGHC) that are related to the proposals. BGHC is a single-bank holding company formed in Guam in 2011. Its sole subsidiary, Bank of Guam, was chartered in Guam in 1972 and has grown to a $1.2 billion institution with branches in Guam, the Commonwealth of the Northern Mariana Islands, the Republic of Palau, the Federated States of Micronesia, the Republic of the Marshall Islands and San Francisco, California. The Bank is one of seven domestic banks in Guam, one of three insured banks in the Northern Marianas, one of three insured banks in Palau, one of two insured banks in Micronesia and the only insured bank in the Marshall Islands. As a full service community bank, the Bank has contributed substantially to the economic development of each of these communities, providing consumer and commercial credit as well as loans to local governments throughout the region. With the exception of a brief period during an economic boom during the late 1980s, the Bank has always been well-capitalized with significant excess.

In the aftermath of the financial crisis of 2008, I appreciate the importance of restructuring the capitalization of the banking system, especially for those banks that engage in unusually risky financial activities and are also systemically important. I also understand that the industry has changed dramatically since the last major revision in capital requirements, and that it is important to periodically revisit this crucial element of the banking system as a whole. As president of a highly-capitalized holding company, I certainly have no objection to increasing capital requirements, as I believe that will make the entire system more safe, sound and stable.

I do have several concerns, though, about the proposed changes in the calculation of both Tier 1 capital and risk-weighted assets. I am particularly concerned that the inclusion of accumulated other consolidated income (which for BGHC, at least, is comprised of the net unrealized gains or losses on our available-for-sale securities portfolio) because it is likely that will make all of our capital ratios highly volatile. That is hardly a prescription for stability, and would require that we hold capital far in excess of the well-capitalized level plus the proposed capital conservation buffer to protect the interests of BGHC and its owners, along with the employees and customers of the Bank. As a relatively small holding company operating in a remote part of the globe, our access to additional capital through the markets is quite limited, particularly when the prospective yield on our common stock will be reduced proportionally to our increased capital ratios. Further, given the current depressed earning environment, it will be difficult to build sufficient additional capital through retained earnings alone. I believe that the proposal to include accumulated other consolidated income in Tier 1 capital should be reconsidered.

I am also concerned about the proposed modifications in risk weights assigned to various asset categories and sub-categories. These proposed changes seem to imply that the risks associated with high-volatility commercial real estate loans, for example, have somehow changed, when they have not. If there is a perception that the risk weights were previously set too low, I have to wonder how that idea is reconciled with the very low rate of bank failures prior to September 2008. I understand that the risk weights applied to certain high-risk assets, such as credit default swaps and other derivatives, have been set too low, and that they should be raised to correct past errors. The other proposed modifications of risk weights, though, seem to be more in reaction to cyclical factors instead of true, long-term changes in economic conditions or banking practices.

There is another matter that concerns me that is only tangentially related to the proposed changes to the computation of capital ratios. There has been a massive increase in the regulatory burden on banks in the last decade, first in the aftermath of the terrorist attacks in 2001, then after the collapse of financial markets in 2008. While the increase in total compliance costs is relatively uniform among all banks, these costs weigh far more heavily on community banks than they do upon the larger members of our industry, and the changes proposed in the calculation of capital ratios would add yet again to our costs without any discernible improvement in our safety or soundness. There has been a huge increase in the number of bank failures in recent years, and many of these failures are associated with imprudent decisions made by bankers. However, another cause that is rarely recognized is the increase in compliance costs and their effect of reduced profits and, thus, retained earnings, leaving many, mostly smaller banks with insufficient capital to weather rapidly changing circumstances. It almost seems like community banks are being forced into failure or sale by design. If the calculation of the risk-rated value of residential mortgages, for instance, was confined to new loans going forward instead of also being applied retrospectively to existing loans, substantial costs could be avoided with little loss of the effectiveness of the calculations, and I recommend that this be considered.

In summary, the proposed capitalization standards are, or should be, intended to reduce systemic risk in the U.S. banking system. However, community banks barely contribute to systemic risk, and the application of these proposed regulatory changes to smaller institutions would do little to reinforce our safety or soundness, and would, in fact, both reduce our profitability further and increase the volatility of our capital ratios. I suggest that the Federal Reserve and the Federal Deposit Insurance Corporation should focus their attention and efforts on institutions presenting systemic risk and allow community banks to be held to different, more appropriate standards.

I thank you again for the opportunity to comment on the Basel III proposals. I hope that my input is valuable in your respective Boards' deliberations on these important issues.

Sincerely,

Lou LGuerrero

Lourdes A. Leon Guerrero
President and Chair of the Board

cc: Congresswoman Madeleine Z. Bordallo
Regional Director Stan Ivie, FDIC