CENTRAL
BANK

October 16, 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").

Central Bank is a small community bank located in Utah County, Utah. We have 10 offices throughout the county and just passed $700 million in assets. We have been around since 1891 and the owners are 5th generation bankers. We are privately held and are currently at 15.5% of capital. We are well known and respected in the community for our contribution to the community as well as for our conservative reputation. Throughout this financial crisis we have continued to serve our community, we have remained profitable and we have retained our 15+% capital position.

> You may ask, "Why is Basel III even an issue for you? Given the current proposal it appears that Basal III would actually help your capital position currently. You have gains in your investment portfolio, you have no trust preferred securities and you have such high capital that your little bank would hardly seem to be affected."

That is all true; however, we felt it important to add our voices to the growing voices of the vast majority of community banks. We applaud your desire to encourage banks to increase their capital. We are a large proponent of higher capital. That is what allowed us to get through this last financial crisis without any government assistance and without any hiccup in our service to our community. We are a firm believer in higher capital. We also are not opposed to set guidelines for when dividends, stock buyback and incentives should be limited or eliminated until certain capital levels are re-established. Both of those efforts help make the banking industry more safe and sound.

However, we have some concerns with the way your are going about accomplishing your objective. We primarily are concerned with the added complexity and ambiguity of how you are proposing that certain types of assets be risk weighted differently. Specifically, we are concerned about the following:

- The proposed residential mortgage rules. Under the proposed rule, it appears that we would be required to re-assess a mortgage after a loan restructuring or modification, unless the modification is made under the federal Home Affordable Mortgage Program (HAMP). Thus, a category 1 mortgage might become a category 2 mortgage after modification if the bank does not modify the loan under HAMP. In addition, the proposed rules do not recognize private mortgage insurance (PMI) at all. Mortgages are therefore subject to high risk weights even if PMI reduces the risk of loss on such loans. Finally, the proposed rules do not include any type of grandfather provision, so all mortgage loans currently on bank books will be subject to the new capital requirements. As a result, banks would be required to examine old mortgage underwriting files to determine the appropriate category and LTV ratio for each mortgage
- The proposal with regards to the treatment of junior liens. Junior liens such as home equity loans and lines of credit pose very little increased risk to our bank but the complexity that the BASAL III proposal adds make the analysis very time consuming and challenging. In addition, a bank that holds two or more mortgages on the same property would be required to treat *all* the mortgages on the property even the first lien mortgage as category 2 exposures. Thus, if the bank that made the first lien also makes the junior lien, then the junior lien may "taint" the first lien into a category 2 mortgage, which results in a higher risk weight for the first lien mortgage. It would seem that this would discourage banks from doing any home equity or 2nd lines of credit as it would potentially pose detrimental to the bank when in fact these are some of the least risky loans to our bank and are a large part of our community's economic equation.
- The proposal regarding "High Volatility Commercial Real Estate". Again this proposal is very subjective and time consuming. We do not have sophisticated software to monitor and determine which loans fall into this category. We are a small business bank and thus many of our loans are CRE loans. To have to manually determine which CRE loans are "highly volatile" based our the proposed rules would be very difficult and time consuming. It seems like that is already accounted for in our Allowance for Loan and Lease Losses analysis. Why would we need to duplicate that in our risk based capital analysis? It seems like we are double dipping and causing a lot of added expense for not a lot of benefit.

- The proposal regarding delinquent loans. Under existing rules, the risk-weight of a loan does not change when the loan becomes delinquent. Instead, the additional risk is addressed through the Allowance for Loan and Lease Losses. We, again, see no need to change the risk weighting of these on the capital level as they are already addressed through the ALLL.
- The proposal regarding unrealized gain and losses as part of Tier 1 capital. Depending upon the interest rate environment this proposal could add a lot of volatility to Tier I capital ratios. Those unrealized gains and losses can swing + or – millions of dollars in a very short period of time. We are very aware of that risk and monitor it closely through our monthly interest rate risk analysis. To add that volatile component to the Tier I calculation would be a mistake in our opinion.

In summary, we are a very plain vanilla community bank. For over 120 years we have remained independent in order to serve our community and provide a living for our employees. Unfortunately, with the recent economic crisis, we are finding that this is becoming very difficult to do. We find more and more of our time is spent trying to digest, understand, and implement as best as possible the very complex and cumbersome slew of regulations coming out of Washington. We are being buried, once shovelful of regulation at a time. Again we are completely in favor of higher capital standards and safer banks but please consider the fact that most community banks are very simple and we understand our risks very well. We would ask that you consider revisiting and simplifying your BASAL III proposal so that community banks remain a viable and strong option for America's small business.

Thank you for your consideration.

Sincerely,

Matt Packard

Matt Packard
President & CEO
Central Bank
Provo, Utah