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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

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

Dear Ladies and Gentlemen,

As Directors of a locally owned community bank located in Cheyenne, Wyoming with approximately $50 million in total assets we would like to take this opportunity to submit our comments on the Basel III proposals recently approved by Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. We certainly agree given the severity of the financial crisis, depth of the economic recession, and the significant number of bank failures that the goal of requiring increased capital in banks may provide additional stability for the banking industry. There are several aspects of Basel III that are unclear in how they advance this goal of increasing banking industry capital and would be burdensome for banks to implement. The two areas in particular that we are most concerned with are the Capital Conservation Buffer and Standardized Approach for Risk-Weighted Assets.

Capital Conservation Buffer

To be frank, it seems as though this portion of the proposed regulation is intended to address the reckless manner in which large "Wall Street" banks approached executive compensation and discretionary bonuses throughout the financial crisis and economic recession. However, to approach this issue with a punitive measure that would affect banks of all sizes such as the Capital Conservation Buffer seems to be an undue encroachment on the independent management of a bank in terms of attempting to restrict executive compensation and discretionary payments, such as bonuses and dividends.

It is not difficult to imagine a scenario where our bank would have a year with strong loan growth and earnings in which we would want to award bonuses to associates involved with loan production, including loan officers as well as support staff. Under the Capital Conservation Buffer it is possible that because of significant loan growth the restrictions of the calculation would indicate that these types of discretionary bonuses could not be paid as desired. This could lead to situations where high-performing associates with years of experience would leave our organization – perhaps even the banking industry altogether – based on a calculation that is more related to sending "Wall Street" a message than strengthening bank capital. It seems like a much more defensible, prudent, and tenable position to simply increase over time the levels at which a bank is deemed Adequately Capitalized rather than to create a separate monitoring system. A separate monitoring system that in our opinion is punitive and attempts to correlate executive compensation and discretionary bonuses with poor bank management when there is no evidence that supports this correlation in regards to community banks.

Standardized Approach for Risk-Weighted Assets

We are also very concerned with the proposed Standardized Approach for Risk-Weighted Assets and how the implementation of this regulation could have a significant impact on mortgage lending. Over the course of the last ten years we have invested a considerable amount of resources in accumulating the type of talent and operational expertise necessary to operate successfully in mortgage lending and the servicing of an in-house loan portfolio. Our in-house loan portfolio – currently totaling approximately $14 Million – has provided immeasurable benefit to the communities in which we serve by allowing situations in which a customer's credit score, debt-to-income, or property appraisal didn't quite fit into the rigid requirements of the secondary market but still presented an acceptable credit risk for our bank. This is evidenced in our ten-year average loss history of 0.15% for our 1-4 Family Residential Mortgage loan portfolio. As you can see, when presented with long-term historical loss ratios of this nature the concept of increasing the risk-weightings on 1-4 Family Residential Mortgages to the levels proposed – in some cases as high as 200% - simply does not make sense.

The proposed risk-weightings and how they would be impacted by balloon payments would be particularly troublesome for our organization. Due to the size of our community bank – and we believe this is a problem common to many community banks across the country - we simply do not feel it is prudent to accept the amount of interest rate risk that comes with fixing loan interest rates for an extended period of time such as 15, 20, or 30 years. The use of balloon payments provides an opportunity to occasionally reprice these loans to current market rates while making sure that the borrower's payment still fits within their income. The way the proposed regulation is currently written indicates that the mere presence of a balloon – regardless of whether the balloon is for a short or intermediate time frame – requires an automatic reclassification to a higher risk weighting. We are not aware of any evidence indicating that 1-4 Family Residential Mortgage loans with balloons of an intermediate nature (5 to 10 years) are justified or deserving in being assessed a higher risk-weighting.

If it is deemed that increased risk weightings for balloon mortgages is necessary then we feel strongly that existing mortgage loans that were originated prior to these rules should be "grandfathered" in. These existing loans were underwritten and priced in a different regulatory climate so to revisit the assumptions made at origination would be a retroactive approach that would not be beneficial to the residential housing market. It has been said many times since the financial crisis that the residential housing market got us into the crisis and it could potentially help to get us out. The introduction of the method of risk-weighting being proposed would have the effect of prolonging the pain in the residential housing market for an unknown period of time and we urge you to reconsider its implementation.

Our bank feels strongly that requiring additional banking industry capital is an entirely appropriate response to the financial crisis and significant number of bank failures. But we disagree just as strongly with many of the onerous requirements that could be caused by the implementation of the proposed Basel III regulations. One of the things we disagree most strongly with is that these regulations would negatively impact community banks that had nothing to do with the financial crisis and in fact have been a driving force behind maintaining a very good regional economy in the Midwest and helping the national economy on the long road to recovery.

Thank you for your consideration.

Sincerely,

Tri-County Bank

Ed Haak

Board of Directors
H. H. Kosman, Chairman; Joseph P. Guth, Vice-Chairman; Bob Peck; Patrick Collins; Ed Haak; Earl F. Warren, Jr.; James E. Kozal; Richard Floor; Aaron Bentley, Secretary

cc: Senator Mike Enzi; Senator John Barrasso; Congressman Cynthia Lummis