From: Tim Aiken [mailto:taiken@hometownbanc.com]
Sent: Tuesday, September 04, 2012 10:45 AM
To: Comments
Subject: RE: FDIC / RIN 3064-AD95

In addition to my previous comments below, one other issue springs to mind in RE to the volatility that will be introduced into community bank capital ratios, should the inclusion of AOCI be adopted as proposed:
What effect will this have on a bank's legal lending limit ? Should market interest rates rise 300 basis points, all community banks would see a decrease in their measured capital levels, under the proposal. Union Bank's current Legal Lending Limit (LLL) is approximately $1.9 million at present; should the AOCI proposal be implemented, our LLL would decrease to $1.2 million if there was a 300 bp increase in market interest rates. We would immediately be in violation of our LLL, in regard to several borrowers. Obviously, a similar scenario would occur in many, many community banks. A further consequence of the volatility introduced into LLL measurement (from the inclusion of AOCI), is that many banks would then need to limit their lending, so as not to run afoul of LLL. Further limitations on lending from community banks would not be a good thing, in our small communities, in a recovering economy.

I again thank you for the opportunity to comment.
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From: Tim Aiken [mailto:taiken@hometownbanc.com]
Sent: Tuesday, August 14, 2012 3:55 PM
To: 'comments@FDIC.gov'
Subject: FDIC / RIN 3064-AD95

Regarding the Basel III NPR:
I have the following concerns with proposals contained in this NPR:

1. The proposal to include unrealized gains and losses of AFS debt securities (AOCI) will cause extreme volatility in capital ratios, due to changes in market interest rates. At present, should market interest rates increase by 300 basis points, Union Bank's current AFS investment portfolio would devalue by $4.7 million. This would have a devastating effect on our capital ratios. Our Tier 1 Leverage ratio would fall to 4.01%, on the edge of being deemed "undercapitalized", and we would of course then face regulatory sanctions. (NOTE: The proposed changes to asset risk weights under the Standardized Approach NPR would cause the volatility to be even greater than noted here). Changes in AOCI due to changes in market interest rates, for an AFS portfolio, should not be included in the measurement of capital adequacy of a community bank. Including AOCI in regulatory capital will have far reaching, immeasurable, and currently unknown detrimental effects on our banking system. If implemented as proposed, to avoid the negative effects and volatility, community banks will be forced to re-class all securities as Held To Maturity (HTM), which will severely limit banks' liquidity and also their abilities to adapt to market changes; or. Banks may decide to not

purchase securities at all (i.e. – investing only in overnight funds), which would have detrimental effects on earnings & also the building and retention of capital.

2. The proposed phase-out of TRUPs as Tier 1 capital will also cause hardships for many institutions, especially if economic conditions do not change for the better. Many banks and BHC's will have difficulty raising additional Tier 1 capital to offset the loss of TRUPs as Tier 1 capital. This may throw some banks and BHC's into under-capitalized positions, triggering a number of other negative effects. Or, for banks and BHC's that are able to issue new Tier 1 capital, they may be forced to do so under unfavorable terms.

3. The phase-in timelines are unrealistic for many institutions, given the current economic and regulatory environments, which are stressing bank earnings (and thus affecting retained earnings for building capital).

4. A portion of the ALLL should be included in Tier 1 capital, and the remainder should be included in Tier 2.

Thank you for the opportunity to comment.

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