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September 24, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: FDIC
RIN 3064-AD95 (Basel III NPR)
Response to Notices of Proposed Rulemaking: Regulatory Capital

Dear Mr. Feldman:

I have significant concerns about your proposals to adopt new regulatory capital rules.

As a community banker, I support the appropriate and strong capitalization of all banks and all financial institutions (traditional banks, insurance, brokerage, credit unions, mortgage houses, and mega banks). I also support a definition of capital that allows all financial institutions to compete on a level playing field. But, if you as regulators incent or enforce improvement in the capitalization of the banking industry, it will be in spite of the proposed new rules and not because of them.

The complexity of the proposed rules is an unreasonable, unjustifiable burden on even large community banks, especially since the complexity of the rules does nothing to mandate capital. The attempt to embody the risk profile of each institution into its own unique capital requirements is a complex science that is very appropriately managed under the supervisory model "CAMELS." Attempting to solve the entire risk profile of an institution within a complex capital calculation is a wasteful exercise at best. The objective of assigning additional capital for higher risk institutions is appropriate. But, the appropriate capitalization of financial institutions will be best accomplished with simple, straightforward rules and effective supervisory oversight. The FDIC's website contains evidence of an already effective process for community banks: Banks between \$100 million and \$1 billion in assets increased their measure of Equity/Assets from 9.87% in 2008 to 11.16% in 2011, an increase of 129 basis points over a 4 year period and during a recession.

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Notwithstanding that I believe community banks should continue to operate under BASEL I, please consider the following with respect to the proposed rules:

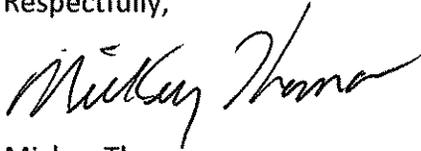
Unrealized losses on AFS securities should not be deducted from regulatory capital. Instead, require additional capital for those institutions engaged in the business of active trading.

The treatment of certain asset risk ratings will have unintended consequences for bank customers and bank balance sheets. Please consider:

- The coefficients of risk assigned to residential balloon mortgages fails to recognize the pervasiveness of this product among community banks and of the demand for this product by consumers. Many consumers do not qualify for home loans in the restrictive secondary market, perhaps over a medical claim on their credit report, their time in a new job, or because they are self employed; in some cases the customer operates a business on the same property. In some cases a bridge loan allows the customer to cure any issues that may keep them from the secondary market. A penalty risk coefficient will increase pricing and restrict credit. Yet, this type of lending is considered “bread and butter” among community banks and has provided a needed service to our customers. This type of lending has been conducted safely by community banks which hold these loans in their own portfolios.
- Structuring risk coefficients for mortgage loans according to SLTV is unnecessarily complex.
- For mortgage loans sold, continue to exempt early payment default or refund clauses that are for a period of 120 days or less. The proposal would treat 100% of these loans as a credit risk to the bank, yet we have not had a single loan returned to us in the last 10 years. When such a loan is returned to a bank, then it will be subject to appropriate capital treatment.
- The proposed treatment of past due assets ignores a bank’s allowance for loan loss and should be omitted.
- The proposed risk coefficients for certain CREs are inconsistent with the substantial regulatory guidance to banks on this topic.

I strongly encourage you to abandon this complexity and substitute with straightforward rules. The objective of assigning additional capital for higher risk institutions is appropriate. But, the appropriate capitalization of financial institutions will be best accomplished with simple, straightforward rules and effective supervisory oversight.

Respectfully,

A handwritten signature in black ink that reads "Mickey Thomas". The signature is written in a cursive, flowing style.

Mickey Thomas
President
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cc: Office of the Comptroller of the Currency (OCC)
The Board of Governors of the Federal Reserve System