First National of Nebraska

1620 Dodge Street
Omaha NE 68197
402.341.0500

January 13, 2006

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

Via E-mail

RE: Comment to Docket Number 05-16

We appreciate the opportunity to participate in this important activity and have the following limited comments for consideration:

Comment A- Increase the Number of Risk-Weighted Categories:

First National is generally opposed to the expansion of risk-weighted categories and is specifically opposed to any risk-weighted category concept which assigns a weighting of greater than 100%.

The current risk-weighted categories are not perfect, and the primary defect is the over allocation of capital to loans which are prudently underwritten. Despite this defect, the alignment of product type to risk-categories makes the most sense. A logical consequence of expanded risk-weighted categories is the movement of capital charges from the product level to the loan level. This expansion of complexity will not be rewarded with reduced capital requirements.

The concept of assigning risk-weightings in excess of 100% is a concept we oppose. The current bottom-up assignment of the adequacy of the reserve for loan losses is the appropriate and sufficient manner to assign capital.

Comment B- Use of External Credit Ratings

First National is opposed to the entire proposed concept related to the use of NRSRO. Community banks rarely see a borrower who has taken the time and expense to obtain a credit rating from a NRSRO. The introduction of a tiered capital schedule in the banking industry will directly result in a tiered loan pricing structure in the small business, agriculture and real estate markets. Banks have made and will continue to make loans to businesses in a prudent manner regardless of whether those businesses have obtained a credit rating. Should we be given the regulatory capital incentive to discriminate in our loan pricing against the small and medium size businesses in favor of the large and mega borrowers? We have seen repeatedly over the decades that loan size and borrower size have dubious correlation to the default results of those loans.

The intellectual concept of assigning capital based on probability of default is interesting. Our bank has followed developments and comments in the American Banker regarding Basel II. We note that comments from the regulatory agencies suggest a minimum leverage ratio, regardless of the default models developed by the Basel II banks. Since the NRSROs are essentially using default models to develop their ratings would we expect the same minimum leverage ratios to be established under this scheme? Will we end up coming full circle back to today's capital levels, as the Basel II banks are finding, but first having mispriced loans to our customers and added unnecessary compliance burdens?

Comment C- Expand Recognized Financial Collateral and Guarantors

We agree with the concept of truly looking at the loss given a default by the customer, but feel that process exists today, both as banks establish their reserve for loan losses and in the pricing of the credit. Regarding the NRSRO portion of your request of comment please be our response to Question B above.

Comment D- One –to-Four Family Mortgages: First and Second Liens

You have asked for specific comments in a number of different areas regarding first and second liens. We would like to take the first lien question first.

We agree with your comments about the need to differentiate the credit risk of first lien mortgages which have "non-traditional" characteristics. We balance your concern with the reality of maintaining debt to income ratios on borrowers, post-closing, when they have no obligation to provide such information to us. .

The proposed rules contained a matrix as an example of the process the regulatory authorities could follow in setting capital levels on first lien mortgage loans. As we have commented elsewhere in our response, the movement of capital requirement calculations from a product level, such as first lien 1-4 residential loans, to a loan specific methodology creates significant burden to banks. The expenses associated with the obvious requirement to update the data elements used in any matrix will not result in an improvement in the loan loss experience in this product class. We encourage you to leave the rules to remain unchanged in this area and continue to conduct your risk-based examinations.

Regarding your comments on HELOC loans with a LTV in excess of 90% where the lender does not have the underlying first lien, you asked if a higher than 100% risk-weighting should be applied. We do not agree with your concept. We feel factors other than LTV must be considered in assessing the risk of loss, given default, of a second lien. Again, we think the reserve for loan losses is the appropriate place to handle isolated underwriting issues, which will vary dramatically from bank to bank.

Comment E- Multifamily Residential Mortgages

We feel the current approach to multifamily residential mortgages is appropriate.

Comment F- Other Retail Exposures

We feel the current approach to other retail exposures is appropriate. First National is very familiar with FICO scores and the migration up and down of FICO scores due to the consumer's behavior. We obtain monthly FICO scores on many of our retail borrowers due to loan loss reserve modeling in our credit card business, and we understand, more than most banks, the resources involved in keeping FICO scores fresh. If capital requirements will be based on FICO scores, it follows that annual FICO updates will not be sufficient for the thousands of banks impacted by this proposal. Most banks draw FICO scores one time (at the credit granting event). The movement to monthly or quarterly FICO updates for community banks is a financial burden with little, if any, benefit to the industry.

Comment G- Short Term Commitments

We do not agree with the proposal to allocate capital to unfunded commitments of less than 365 days. The current regulations properly frame the risk of unfunded commitments by recognizing the higher loss characteristics of long term commitments. Short term commitments on the other hand have lower risk characteristics due impart to their nominal usage. There are billions of dollars in 364 commercial paper backup lines- how many of those lines have ever been drawn? Of those drawn were there losses? We feel capital and reserves are necessary cushions to protect from losses inherent in a product, but where is the loss requiring the cushion?

Comment H- Loans 90 days or More Past Due or in Nonaccrual

We are completely opposed to the concept raised in the document and feel a proper reserve for loan loss model provides the appropriate protection required. The proposed simplistic approach does not even consider probability of loss or loss given default. We know community banks do not possess those high-powered models operated by the Basel II banks, but we have a very good idea of loss given default and manage our loan loss reserve according.

Comment I- Commercial Real Estate (CRE) Exposures

Our previous comments have been made moot by the recent ANPR covering real estate concentrations. We would be happy to share with the agencies other relevant risk management factors to consider when assessing the strength of a CRE loan, such as levels of guarantees, loan to value, projected debt service, type of tenant and the like. We will comment on the recent document further.

Comment J- Small Business Loans

We applaud and agree with your direction in making small business loans more risk sensitive. Small business loans underwritten with little more than a scorecard deserve the higher capital requirement, while those underwritten as secured with a variety of collateral should and will pose a lower risk to the banks given default, suggesting a lower capital level. We would strongly encourage you to use a definition in existence today to identify small business. It would be confusing to have an SBA borrower, who qualifies for federal jobs credits, but does not meet a threshold developed by the banking regulators.

Comment K- Early Amortization

We do not agree with the changes proposed and feel the current regulations are balanced. The regulators should have known in preparing their comment that no credit card securitization structure exists today without the Early Amortization feature discussed here. Credit Card securitizations have been an important element of risk management, liquidity management and capital management which continues to work very well. Capital, in the final analysis is to protect the deposit insurance funds- In looking closely at both the structure of a credit card securitization and the FDIC's history of bank failures related to early amortization we find no basis to change the current rules.

Thank you for the opportunity to comment

Sincerely

T.D. Hart

Timothy D. Hart
Senior Vice President & Comptroller