Raymond Federal Bank
ESTABLISHED 1925

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October 20 , 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th St, NW
Washington, DC 20429
Delivered via email: comments@FDIC.gov

Office of the Comptroller of the Currency
250 E. Street, SW
Mail Stop 2-3
Washington DC 20219
Delivered via email: regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, NW
Washington DC 20551
Delivered via email: regs.comments@federalreserve.gov

Greetings from the Pacific Northwest:

On behalf of the Staff and Board of Directors of Raymond Federal Bank of Raymond WA, we appreciate the opportunity to provide comments on the Basel III Capital Proposal.

Raymond Federal is the smallest thrift in the state of Washington with assets of $56 million and three offices in Pacific County. We are a traditional thrift institution and a portfolio lender. As of June 30, 2012 we had a capital leverage ratio of 9.90%, a Tier 1 Risk Based Capital Ratio of 20.92%, and a Total Risk Based Capital Ratio of 20.92%. Our mission is to serve our market and our customers.

The bank has been in business since 1925. In a day where home mortgages are originated by behemoth institutions and sold to a servicer in far parts of the country, we provide interpersonal service in the mortgage origination process. Our customers know where their loan will be serviced, the know who will be serving them, and they know they can always pick up the phone and call, or actually stop in and visit with us. Quite a contrast.

The Bank has a strong capital position and will be minimally impacted in the initial stages of implementation of the regulation. However, we are concerned about the impact on our customers, down the road, as well as the overall impact on the banking industry and the economy as a whole.

The Basel III proposal is a highly complex regulation that we believe will be detrimental to community banks of all kinds; Mutuals, Stock, and Subchapter S institutions. Specific concerns include:

-The capital proposal is arbitrary and places too much emphasis on higher levels of capital without regard to the other types of risk a bank must manage. If we have learned anything during the different credit crises which have occurred over the last thirty years, one must focus on all the risks, including: liquidity, solvency, interest rate, and credit risk. The most important of these is credit risk. Adequate capital provides a cushion to help with asset quality problems. It does not fill the void created when sound underwriting and credit practices are not part of the culture of the institution.

-The increases in the risk rating of some Mortgage Loans will make home loans more difficult to obtain. This is counter-productive for our housing market, which has been struggling for the past 5 years. It penalizes small local portfolio lenders like Raymond Federal and most importantly, our customers. In spite of the fact that community banks had very little to do with the mortgage meltdown scenario.

The impact on the communities we serve will be negative. Our county is one of the more economically distressed counties in the state of Washington. Our customers and communities have been positively impacted by the lending that has been done by Raymond Federal Bank. This regulation will restrict our ability to make many credit worthy loans and help our customers.

-We believe that the higher risk rating on loans which are typical first time homebuyer loan – low down payment backed by Private Mortgage Insurance (PMI) - overstates the risk inherent in this type of loans. Our recent experience with a limited of number foreclosures shows that the loans insured by PMI had significantly smaller losses than did those that had a 20% (or more) down payment and no PMI. Granted, the strength of the Insurance Company needs to be taken into consideration. That is only common sense. But to be so restrictive when it is clearly not warranted, shuts out the qualified first time homebuyer.

With the credit availability significantly reduced for first time homebuyers the impact will be negative on the affected customers and the local real estate market.

-The arbitrary increase in capital will reduce return on equity which will reduce the stock price for stockholder owned banks, at a time when banks will be forced to go raise capital. This double edge sword is counter-productive to meeting the credit needs of customers and local markets. We are further concerned that the impact on the macro-economy will be to depress loan growth by the "artificial" increases in the capital requirements. This in turn will help depress the economy.

-Last but not least is the way the proposal handles delinquent loans. When evaluating problem credits, a detailed and exhaustive analysis of the allowance for loan and lease accounts (ALLL) is required of all financial institutions. To arbitrarily increase the risk rating on a problem credit at the same time that each loan has been addressed by the ALLL analysis is needlessly punitive.

We acknowledge that there are many more points in the proposal which could be discussed. We chose to select four of the more salient points, from our perspective. We reiterate our concern for the macro-economic impact of arbitrarily increasing the capital requirements of community banks. Now is not the time to hamstring community banks with the overkill of this regulation

Before implementing a regulation of this nature, we implore the regulators revisit the proposal and the impact which it will have on community banks. If you want to get rid of a large number of community banks and have only "too big to fail" large banks, this is certainly a way to accomplish such a feat. This in turn will make it more difficult for real people in our communities find the right financing to purchase the American Dream.

In closing, we are most appreciative of the opportunity to comment.

Sincerely,

John P. Marvin

John P. Marvin
President