wheatland bank

October 5, 2012

To Whom It May Concern:

As a strong and growing independent community bank, with excellent asset quality, and solid earnings performance throughout the recent financial crisis, we are extremely concerned about the application of BASEL III to community banks less than $10 billion.

While we support the need to enhance the capital standards of large multi-national banks, especially given lessons learned from Wall Street and sub-prime lending practices, the truth is that community banks operate under very dissimilar and far less risky business models. Community banks did not participate in the risky sub-prime lending practices that helped lead to the financial crisis and therefore, we believe community banks should be regulated differently. It seems unfair to subject community banks to the same regulatory standards set in place for much larger multi-national banks that operate sophisticated non-traditional banking activities, have extreme risk profiles, and complex capital structures.

As we have worked through understanding the new BASEL III notices of proposed rulemaking (NPR) we definitely believe that the new risk-weighting for 1-4 Family Residential Mortgage loans will present challenges for community banks at a time when the Fed seems to be using all available options to keep rates low and promote lending and mortgage activities. The complexity, regulatory burden, and potential cost may force community banks to reevaluate their mortgage activities.

In addition, the new regulatory risk weight for "high volatility commercial real estate exposures" seems highly restrictive. We pride ourselves in our risk management practices, loan underwriting, concentration monitoring and reporting, and our excellent asset quality, yet we will now be subject to new 150% proposed risk weighting despite this.

Finally, our bank, like most community banks, is laden with excess liquidity that if not lent out, is being invested in bank qualified investment vehicles (i.e., Agency bonds). With interest rates at all time lows, any market movement upward will cause instant unrealized losses, that under the NPR's could now be included in our common equity tier 1 capital. This could greatly impact our investing decisions and interest rate risk and liquidity management by forcing us to reduce duration risk in our investment portfolio to limit the volatility in our regulatory capital due to changes in market interest rates.

We understand the importance of capital in contributing to a strong, healthy financial system. However, an overly complex, "one size fits all" capital rule will most likely increase cost to the industry, and have the unintended consequence of curtailing lending activities during a time the economy can least afford. We are in support of Richard Riccobono, director of the Washington State Department of Financial Institutions' Division of Banks, and his proposal for community bank capital requirements. Mr. Riccobono suggests a better approach to community banks is to use a combination of minimum capital

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standards and continue with more rigorous regulatory supervision to flag banks that are venturing too deep in risky lending.

Thank you for your consideration.

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