EST. 1907 FIRST UNITED BANK

DAVID C. BLACKBURN
Chief Financial Officer

September 26, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide our comments on the Basel III proposals that were recently issued by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

First United Bank and its bank holding company, Plains Bancorp, Inc., are located in West Texas where we serve 11 different communities through our 15 banking centers. As a community bank with total assets of approximately $1 billion, we are concerned about the unintended negative effects of the proposals on our organization and our ability to serve our customers and communities.

In general, we believe all of the proposals are complex and/or burdensome and should not apply to community banks such as ours. Instead, these proposals may be more appropriate for large, complex institutions such as those with assets in excess of $10 billion. In arriving at this conclusion we evaluated the specific proposals and have provided our comments on several of the proposals as outlined below.

Proposal to Include Unrealized Gains and Losses in Regulatory Capital

The proposal to include unrealized gains and losses in regulatory capital is of concern for the following reasons:

- As acknowledged by the banking agencies, the inclusion of unrealized gains and losses in regulatory capital would cause substantial volatility in the regulatory capital ratios. The volatility will result from introducing a capital component based on market rates of securities that change frequently, in some cases daily. This volatility caused by the inclusion of unrealized gains and losses in regulatory capital would render the regulatory capital ratios useless in measuring the true capital position of our bank. Just as we do not expect to

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realize the gains reflected in our securities portfolio today, we do not expect to realize the losses that will be reflected in our portfolio when interest rates rise. Our past history supports these expectations. Historically we have classified 100% of our securities as available for sale (AFS). Only recently we classified a small portion of our portfolio as held to maturity (HTM). Even though our securities portfolio has been predominantly classified as AFS, we have very seldom sold any of the AFS holdings. Over the past five years our average sales of AFS securities have been less than 1% of our total portfolio. The sales that have occurred have typically occurred due to the routine clean-up of mortgage backed securities tail pieces, which had an insignificant impact on capital. As with many other community banks, the unrealized gains and losses rarely become realized because although the vast majority of securities are classified as AFS, they are only classified as such in order to promote financial flexibility. In reality the AFS securities end-up being held until they are called or mature with no gains or losses realized.

- Because of the capital volatility this proposal would cause, we would be forced to classify more of our securities portfolio as HTM instead of AFS. In turn, this will create significant issues with asset / liability management. In particular, liquidity will be affected. While our bank and many others have ample liquidity today, it was only a few short years ago that liquidity was a critical concern to many banks. Liquidity concerns should not be forgotten and liquidity should not be sacrificed.
- Due to the capital volatility this would cause, we would also have to carry additional capital to provide a cushion for the fluctuations. By carrying this additional cushion it will reduce the capital available for growth and reduce resources available for meeting customer borrowing needs. Under any economic conditions a proposal that reduces the availability of capital for lending can be detrimental, but under the current economic conditions, such a proposal could be devastating to the economic recovery by reducing capital available for lending activities.
- As mentioned previously, we have rarely realized any of the gains or losses reflected in our securities portfolio. In most cases, the unrealized gains and losses simply represent fluctuations in benchmark interest rates. Banks that have losses in securities that are related to credit concerns with the issuer are already required to have recognized those losses under the other than temporary impairment (OTTI) accounting requirements. Thus the losses that are related to credit concerns are already reflected in capital.
- By including unrealized losses in regulatory capital, it would also affect that bank's investment strategy by forcing further limitations on securities with longer durations. Mortgage-backed securities would be affected by this, which would in turn affect financing available to home buyers. Municipal securities would also be affected. The result of this would be that states and local governments would have higher borrowing costs which would affect taxpayers by increasing taxes to pay for the higher borrowing costs. These limitations on longer duration securities would negatively impact earnings and capital as well.

For these reasons, we feel strongly that unrealized gains and losses should not be included in regulatory capital at all. At a minimum, the unrealized gains and losses resulting from changes in benchmark interest rates on securities issued by the U.S. government, U.S. government sponsored agencies, and states and political subdivisions of the U.S. should be excluded from regulatory capital.

Proposal to Phase Out Trust Preferred Securities as Regulatory Capital

The proposal to phase out Trust Preferred Securities (TruPS) as regulatory capital is of concern for the following reasons:

- First, and foremost, the Dodd-Frank legislation never intended for TruPS to be phased out for community banks. The Collins amendment grandfathered TruPS for institutions between $500 million and $15 billion in assets.
- Phasing out this critical source of affordable capital will place an undue burden on community banks and their capital plans. Our bank holding company has successfully used TruPS as a source of capital since 2001 and currently has $20 million in TruPS in our regulatory capital. Under this proposal we would be forced to find a replacement for this source of capital. Not only are there significant challenges to raising this amount of capital, but also the costs of the replacement capital would undoubtedly be much higher than the cost of our TruPS.
- If TruPS are phased-out of regulatory capital we would no longer have a need for them. As a result we would redeem them resulting in fewer investment alternatives for investors, which, in many cases, are other financial institutions.
- Non-publicly traded community banks, such as ours, are already facing significant obstacles to raising capital. The high costs of compliance with Dodd-Frank, pressure on net interest margins, along with this proposal would only add to the challenges that we face in maintaining and growing capital.

In summary, this proposal is inconsistent with the intent of our legislators and detrimental to community banks. Trust Preferred Securities should continue to be grandfathered for institutions with assets between $500 million and $15 billion.

Proposal to Amend Risk Weights Related to Residential Mortgages and "High Volatility Commercial Real Estate" (HVCRE)

The proposal to amend the risk weights related to residential mortgages and HVCRE is of concern for the following reasons:

- The level of detailed information that must be tracked in order to properly assign risk weightings to the various assets would be extremely burdensome and costly for our bank as it would require additional staff and resources to maintain such detail.
- The proposed risk weightings of up to 200% on residential mortgages would be a deterrent from making such loans. In many community banks, such as ours, residential mortgages are kept on the banks books because they do not conform to investor standards. Under the current proposals our bank would be forced to evaluate the prudence of originating these types of residential mortgages given the possible capital effects. This proposal is just one more obstacle that banks would have to consider when evaluating their residential mortgage lending operation.

We believe that the negative effects of the proposals to impose such burdensome requirements and unreasonable risk weightings on residential mortgages and HVCRE would far outweigh any benefits that might be achieved by, in some instances, risk weighting residential mortgage loans at 200% and HVCRE at 150%. We do not believe that these requirements should be imposed on community banks.

Proposal Regarding Capital Requirements for Assets with Credit Enhancing Representations and Warranties

The proposal to require capital to be held against assets with credit enhancing representations and warranties is of concern for the following reasons:

- Our bank's historical losses during the representation and warranty period have been zero. As a result, we believe this is another proposal that would unnecessarily confine capital that should be used for the purpose of enhancing mortgage lending instead of hampering it.
- Investors are unlikely to accept mortgages without the enhancements and warranties, thus limiting potential investors. By limiting potential investors it would affect pricing to our customers by limiting options for the bank to sell the mortgages on the secondary market.

The proposal to require capital to be held against assets with credit enhancing representations and warranties is one more obstacle that banks would have to consider when evaluating their residential mortgage lending operation. We do not believe community banks should be subject to this proposal due to the negative effects it would have on the availability of mortgage lending to consumers.

In conclusion, we are concerned about the direct effects these proposals would have on our bank and our ability to serve our customers. We already operate in a highly regulated environment where compliance costs continue to consume more and more resources. For our bank, compliance with these proposals would only continue the trend of taking the focus off of meeting our customers' needs.

The Basel III international capital standards were not developed with the safety and soundness of community banks in mind, and should not be applied to community banks with assets less than $10 billion.

Thank you for your consideration of our comments on these proposals.

Sincerely,

David C. Blackburn

David C. Blackburn, CPA
Chief Financial Officer