RSNB
BANK

October 1, 2012

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

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 comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

RSNB Bank is a $365 million bank chartered in 1892. We predominantly serve the customers of southwest Wyoming, including the rural communities of Rock Springs and Green River and their outer lying areas. Most of our customer base includes small "mom-and-pop" type businesses ranging from energy development, to construction, to ranching. Wyoming residents have a strong sense of self worth and responsibility. Our bank has embraced this philosophy for well over 100 years as we strive to meet the needs of our community. RSNB is not contrary to the strengthening of our financial sector. A strong financial sector leads to stronger customers, businesses and the overall economy in general. However, we believe this needs to be accomplished in such a way that additional capital strains are not placed on community banks as we try to climb our way out of the most difficult economic environment since the Great Depression. Any capital constraints at this point in time will have a direct and devastating effect on local business that provides the majority of job growth in our nation.

I. Requirement that gains and losses on available for sale securities must flow through to regulatory capital.

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The major concern for our institution is the inclusion of gains and losses on available-for sale debt securities in the common equity tier 1 computation. Currently, our bank has a total security portfolio of about $237 million (including a $5.4 million unrealized gain) and total bank capital of $39 million. This equates to a Tier 1 capital ratio of 9.4 and a risk based capital ratio of 26. In the past 18 months alone, our unrealized gains and losses have swung from a loss position of about $1.2 million to our current gain of $5.4 million due almost entirely to changes in market pricing. This adds a great deal of volatility to our capital account and how we as bank management need to manage our bank. With the unprecedented low interest rate environment we have witnessed over the last couple of years it is the consensus that interest rates will rise. As they do, the bank will experience another swing in unrealized gain and losses just the opposite of that described above. In order to maintain the "status quo" we would need to raise over $6.5 million in capital at a time when capital is nearly impossible to raise. The end result would be to shrink the bank and for us that would mean large sales of securities. Earnings would be reduced, demand for Mortgage Backed Securities and Municipal Bonds would drop, thus reducing the availability of funds for homebuyers and municipalities. This is just the effect on our bank. Compound that with all the other banks in the country and you have a complete shutdown of the mortgage market, government entities and the entire economy.

The only other alternative would be to sell off Available for Sale Securities and hold new purchases in the Held to Maturity Category. This would completely eliminate our ability to pro-actively manage our balance sheet based on changes in the economic environment. In addition, durations would be shorter and the negative earnings impact would also reduce capital accounts. Either way, you are adding volatility to capital accounts at a time when banks should be focused on building a stable, well-capitalized balance sheet.

II. Elimination of Trust Preferred Securities

While our bank does not hold Trust Preferred Securities (TPS), many banks have used TPS as a low-cost, safe source of capital. By reducing TPS, there will be additional capital constraints placed on small to medium-sized banks as they are the primary users of TPS. Small and medium-sized institutions do not have a readily available source of capital and it will be difficult to replace this funding source. The end result is again a negative impact to our bank customers through reduced lending as capital requirements increase. Multiply this by banks across the country and we are effectively limiting capital to small businesses and thus eliminating any type of job growth nationwide. This is not the result anybody wants given our current economic environment.

III. Increased risk weighting for residential mortgage loans

RSNB has been in the residential mortgage loan business for a number of years. We currently retain a portfolio of mortgage loans on our books and actively sell loans to the secondary market. If this proposal passes our own internal portfolio will be decreased substantially. It is already difficult for us to maintain a portfolio on our books since typically one sees secondary market rates as low as 3% for up to 30 years. Community banks can't originate these types of loans due to interest-rate risk, liquidity risk and earnings risk. Therefore, our already smaller residential loan portfolio will take a huge cut as now we have to risk weight those individual loans at a higher rate and retain more capital. The logical effect will be to originate other types of loans that may not be as well-secured as a first mortgage residential real estate loan, but with a lower risk weight. That adds another layer of risk on to the balance sheet.

The proposed regulation also requires a bank to categorize loans into Category 1 (Traditional mortgage) or Category 2 (Riskier mortgage). Community banks have carved out a small niche in lending on non-traditional properties (i.e. – houses on larger lots, houses with large, detached garages, etc.) That doesn't mean that these properties are any riskier than traditional properties, however a higher risk-weight will be assigned, thus requiring a higher capital balance. The end result is less or NO lending on non-traditional properties which are so prevalent in rural markets.

In addition, the bank will need to hire additional personnel to insure that we are risk weighting those assets at inception and through the entire duration of the loan as loan to values change and the financial capacity of borrower's changes. Additional personnel equates to higher costs which in return is passed on to the end consumer.

IV. Requirement to hold capital for credit enhancing representations and warranties on 1-4 family residential home loans which have been sold into the secondary market

The rules set forth requiring capital for credit enhancement on 1-4 family residential home loans is probably one of the biggest unknowns. It has the power to effectively eliminate all mortgage lending by community banks in the country. This equates to billions of dollars and millions of homeowners. Mortgage lending would be done only by the big banks, which already have smaller capital requirements, but are deemed "Too Big To Fail." This drives customers out of our banks and into the bigger banks. It puts community bank at an unfair disadvantage.

There is a great deal of conversation on how the capital requirement would be calculated and how long it would be retained. A bank that sold $1,000,000 of loans a month could have a capital requirement as high as $12 million over 1 year's time-frame. How many community banks would be able to fund such a capital adjustment? How about at 6 months? This regulation would result in substantial additional capital charges for a significant volume of sold mortgages. Again, the end result is added costs passed on to the end consumer.

The rationale behind establishing this credit enhancement is to help mitigate the number of bad loans made by and sold off on the secondary market. The problem is most of the bad loans we have seen over the years were not originated by commercial banks. They were originated outside of the banking sector by mortgage brokers. In our entire history we have had minimal loan buybacks and all of those loans have or are currently performing. There is little evidence that the temporary representations and warranties associated with "pipeline mortgages" have resulted in significant losses for regulated banking organizations, even during the financial crisis.

V. Proposed rules regarding home equity lending

Home equity lending has seen some difficult times over the past couple of years with declining property values. Many lenders will not currently originate HELOC's. This proposed regulation could be viewed as the nail in the coffin for HELOC's. Banks will refrain from lending with junior liens so not as to taint the first lien and risk weight both loans at higher percentages. That will eliminate the ability of borrowers to acquire additional funding or add additional costs to the borrower as they will need to refinance their entire balance into one loan. New origination costs, appraisal costs and title insurance fees will be direct costs of such regulation. This will all happen when the industry is still not certain on what a qualifying mortgage will look like and who will qualify for such a mortgage.

VI. New rules regarding "High Volume Commercial Real Estate"

This rule will not have a major impact on our institution as most of our portfolio would fall into one of the excepted items. This would have an effect on larger institutions that finance a great deal of the larger commercial projects. We have done participation loans on these types of projects in the past and this regulation would make us closely evaluate any future projects. The end result will be added expense to the bank in the form of increased capital standards which will be passed on to the customer, assuming banks so choose to lend on these types of projects. Once again, this leads to the possibility of a negative impact on any future expansion in the economy.

VII. Proposal to increase risk weights on delinquent loans

We are very fortunate to not have the large delinquencies experienced by banks in other parts of the country. However, that could change depending on future economic conditions and regulatory constraints. Delinquent loans are currently addressed through additional loan loss provisions which have a direct effect on earnings and the amount of the Allowance for Loan Loss we are required to carry. By risk-weighting delinquent loans at higher rates, banks are essentially having a negative effect on capital in two different ways. First, additional capital is required for the delinquent loan in order to maintain a higher Allowance for Loan Loss as increased loan provisions are made. Then, the same loan is risk weighted at a higher amount thus requiring additional capital again.

In conclusion, the common theme with all of these proposed regulations is the increased volatility to a community bank's capital account and the loss of service or added cost that will be passed on to our customer base. As stated in the opening paragraph of this letter, we are not adverse to capital growth and strengthening our financial sector. However, it does need to be done in such a way that bank management can continue to build capital in the traditional way and not have to react to sudden uncontrollable market changes. We all remember the lessons of the Great Recession and we do not want to put added strain on our financial system because of these unexpected market changes. If the ultimate goal of this regulation is to increase capital in the financial sector, then do it in the traditional way we as bankers have become accustomed to; but don't make us manage our balance sheets based on the day-to-day values of the financial markets. Only this way will community banks be able to effectively serve the needs of our customers. For this reason, we truly believe the implantation of Basel III as proposed would significantly and negatively alter the way community banks server their customers and communities and is unacceptable as we strive to improve our nation's economy. Thank you for your consideration.

Sincerely,

John W. Hay III
President

Heather A. Anderson
Senior Loan Officer