

From: JP Stone Community Bank, Dannah Brown  
Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules  
Subject: Regs H & Y Regulatory Capital Proposals

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Comments:

October 12, 2012

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

Re: Community Bank Exemption from Basel III, thus operating under Basel I

Ms. Johnson:

Thank you for allowing me to provide comments on the Basel III proposals that were issued for public comment by the Federal Reserve Board.

I have been employed by a family owned community bank in New Mexico for 46 years. This bank invests in and supports the local community in a way none of the large banks have or will ever do. I have seen people obtain the American dream of owning their own home due to our community bank being able to make loans that would not qualify on the secondary market. I've seen families able to provide school clothes and school supplies for their children, because my bank will make a \$500 loan where our competitor down the street will not make a loan less than \$5,000. The Basel III proposals, if made into regulation requirements, will effect how community banks will be able to serve the needs of their communities.

Community banks should be allowed to continue using Basel I framework for computing their capital requirements. Community banks did not engage in the highly leveraged activities that severely depleted capital levels of the largest bank and created panic in the financial markets.

Community banks operate on a relationship-based business model that is specifically designed to serve customers in their respective communities on long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approached to managing risk.

Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks who offer these loan products to their customers and deprive customers of many financing options for residential property. Additionally, higher risk weights for balloon loans will further penalize community banks for mitigating interest rate risk in their asset-liability management. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans.

Sincerely,

Dannah Brown

Senior Vice President  
JP Stone Community Bank