A NEW CHOICE IN NEIGHBORHOOD BANKING.

September 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

Office of the Comptroller of the Currency
250 E. Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219

Robert E. Feldman, Executive Secretary
Attn: 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 issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. On behalf of the Board of Directors and the management team of First Choice Bank, I urge you to reject the Basel III proposals as it applies to community banks as we believe it will have a potentially disastrous effect on the industry. Reasons specific to our institution follow.

Applicability of Basel III to Community Banks

We believe that Basel III was designed to apply to the largest, internationally active, banks and not community banks. Community banks should be allowed to continue using the current 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 banks 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 a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. The largest banks operate on transaction volume and pay little attention to the customer relationship. This difference in banking models demonstrates the need to place tougher capital standards exclusively on the largest banks to better manage the ability to absorb losses.

Incorporating AOCI as Part of Regulatory Capital

Inclusion of accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for most community banks represents unrealized gains and losses on investment securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. Recently, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. Additionally, demand for many implicitly and explicitly government guaranteed securities has risen due to a flight to safety and government intervention in the capital markets. This increased demand has caused credit spreads to tighten further increasing bond valuations.

Interest rates have fallen to levels that are unsustainable long-term once an economic recovery accelerates. As interest rates rise, fair values will fall causing the balance of AOCI to decline and become negative. This decline will have a direct, immediate impact on common equity, tier 1, and total capital as the unrealized losses will reduce capital balances. At First Choice Bank, for instance, if interest rates increased by 300 basis points, the bank's bond portfolio would show a paper loss of $14,246,000.00. This would mean that our bank's Tier 1 ratio would drop by 1.83%.

As a direct consequence community banks will elect to classify these securities as Held To Maturity (HTM) to avoid the risks of capital volatility. These securities make up 20% to 25% of a typical community bank's balance sheet. The net effect is that community banks will lose the ability to manage that portion of their balance sheet. Community banks should continue to exclude AOCI from capital measures as they are currently required to do today.

Capital Conservation Buffers

Implementation of the capital conservation buffers for community banks will be difficult to achieve under the proposal and therefore should not be implemented. The requirement for this to be in the form of common equity, excluding perpetual non-cumulative preferred stock that is defined as Tier 1 capital in the proposal, makes this even more difficult to achieve. As an example, First Choice Bank's Tier 1 leverage ratio as of June 30, 2012 was 9.01%; well above regulatory guidelines. The implementation of the common equity capital conservation buffer as issued in the proposal would jeopardize our ability to pay dividends due to our current shareholders based on our current mix of common equity and non-cumulative perpetual preferred equity. If the regulators are unwilling to exempt community banks from the capital conservation buffers, it should be revised to include all eligible Tier 1 capital and additional time should be allotted (at least five years beyond 2019).

Sincerely,

Randy Hanks
President/CEO
On behalf of the Board of Directors of First Choice Bank