September 18, 2012

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

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

We are writing to provide comments on the Basel III proposals[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

United Bank & Trust is a $900 million community bank located in Ann Arbor, Michigan. We provide financial solutions to clients through a line of business delivery system that includes banking, mortgage, structured finance and wealth management. We operate offices in Washtenaw, Lenawee, Livingston and Monroe Counties in Michigan. These proposals would have a significant impact on the nature of financial services for our bank. We have four specific areas of concern that we will explain below.

Unrealized Gains (Losses) on Available for Sale Securities

The proposed rules require that all unrealized gains and losses on available for sale securities (AFS) must flow through to Tier 1 capital. While we currently carry an unrealized gain in our AFS portfolio, this could quickly change to an unrealized loss as interest rates increase. A 300 bps rate increase to our portfolio would impact our risk weighted capital levels by approximately 1.20%. Because of the uncertainty and capital risk associated with an interest rate increase, we would likely shift a meaningful portion of our securities portfolio to the "held to maturity" category. Therefore, in order to address the increased capital risk resulting from Basel III, we

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

2723 S. State Street, Suite 210, Ann Arbor, MI 48104

would, in effect, be pushed to take on more liquidity risk. We would not expect that this is the desired outcome of this section of the proposed rules, and would request that the agencies review the proposed treatment. We believe that the unrealized gain or loss on the AFS portfolio that is a result of interest rate changes continue to be excluded from Tier 1 capital.

Mortgage Servicing Assets

We are a significant provider of mortgage loans in our communities. As of June 30, 2012, our sold and serviced mortgage portfolio (off-balance sheet) was $768 million compared with our balance sheet total loan portfolio of $577 million. Because of our ability to originate, sell and service residential mortgage loans, we have continued to be an active lender in our communities. Without this capability, our capital levels would have severely constrained our ability to continue to lend. Also, our servicing of the sold loans allows us to work directly with our clients as issues arise rather than forcing them to contact a 1-800 number to try to resolve their issues. This is a valuable community banking service.

Under the proposed rules, the mortgage servicing asset would either be deducted from capital or it would be risk weighted at 250% (2.5 times the current risk weighting). This would materially impact our ability to earn a necessary return on our capital and would force us to either exit this business or scale back on our level of service. Either result would negatively impact residential mortgage lending in our communities. As such, we would request the agencies review the proposed treatment of mortgage servicing assets.

1-4 Family Residential Mortgage and Home Equity Lending

The proposed treatment regarding the risk weighting of 1-4 family residential mortgages (first lien and second lien positions) seems to be quite complex and could have a significant impact on capital requirements (and lending opportunities) for our institution and similar institutions that provide mortgage and home equity loans in their communities. As mentioned above, we are a significant provider of mortgage loans in our communities. Due to interest rate risk considerations and our desire to obtain the best financial result for our clients, the vast majority of our 1st lien residential mortgages are 15- or 30-year fixed rate loans that we sell on the secondary market. However, there are many occasions when a potential borrower does not fit the characteristics of a secondary market loan (including loan size). On those occasions, we carefully underwrite and offer the client a portfolio loan. The proposed risk weighting of Category 1 loans will lead to less availability and/or higher prices for these loans.

As a community lender, we also offer home equity loans and home equity lines of credit. These loans allow our clients to cost-effectively tap the equity in their homes or to provide contingent funding for an unforeseen financial event. The consequences of the loan to value weighting of home equity loans would result in less availability and/or significantly higher prices for these loans.

In addition, as a community bank, we try to meet all of our clients' financial needs. We often provide a 1st lien mortgage loan and a second lien home equity loan or line of credit. In these cases, under the proposed rules, the Category 2 treatment of the home equity loan would also

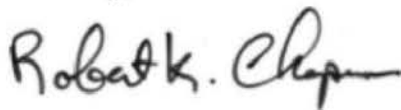
taint the 1st lien loan and result in 100-200% risk weighting of the 1st lien position. Once again, this will lead us to limit our product offering or significantly increase our pricing to allow for a reasonable return on our capital. We would ask that the agencies review the significant impact that the 1-4 family residential mortgage loan risk weighting will have on product availability and pricing. Additionally, we request that you eliminate the tainting provisions contained in the proposal. The tainting treatment wouldn't exist in cases where there were two separate lenders of the 1st lien loan and the second lien loan. Why should they exist if one lender provides both loans?

Risk Weighting on Delinquent Loans

Under existing rules, the risk-weighting of a loan does not change when the loan becomes delinquent. Instead, the additional risk is addressed through the Allowance for Loan and Lease Losses (ALLL). The proposal would change this approach significantly, assigning non-residential loans over 90 days past due a risk-weight of 150%. We believe that the proposed treatment results in a "double-counting" of the impact of delinquent loans. The current rules allow for Tier 2 capital treatment of the ALLL, but only up to 1.25% of risk-weighted assets. As of June 30, 2012, only $7.4 million of our $22.1 million ALLL was given Tier 2 capital treatment. Under the proposed rules, we would still be limited on our capital treatment of our ALLL, but would be required to carry additional capital for our past due loans. We request that the agencies review the proposed treatment and either eliminate the added risk weighting for the delinquent loans or allow the bank to utilize 100% of its ALLL as Tier 2 capital rather than being subject to a seemingly arbitrary 1.25% limitation.

We thank you for the opportunity to provide comments on the Basel III proposals and we appreciate your consideration of our requests.

Sincerely,



Robert K. Chapman
President & Chief Executive Officer

Randal J. Rabe
Executive Vice President & Chief Financial Officer