AMERICAN SAVINGS, FSB

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October 19, 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: Comments - Basel III Capital Proposals

Ladies and Gentlemen:

I am the President and Chief Executive Officer of AMB Financial Corp. (the "Holding Company"), a savings and loan holding company, and its subsidiary American Savings, FSB (the "Bank") which has approximately $180 million in total assets. We are a community bank with four offices located in Northwest Indiana and recently celebrated its 100th anniversary. The Bank's assets consist primarily of single-family mortgage loans and to a lesser extent multi-family and non-residential mortgage loans, as well as non real estate small business and consumer loans.

The holding company is considered a small shell holding company as the primary assets are the investment in the subsidiary Bank and the primary debts are borrowings and trust preferred securities. Throughout its existence, the holding company has never been subject to a capital requirement.

<u>Issue of Concern:</u> No Exemption from the Basel III Proposed Rules for Small Savings and Loan Holding Companies

Under the proposal, all savings and loan holding companies, regardless of size, are required to comply with Basel III. The Federal Reserve has a long standing policy statement excluding bank holding companies under $500 million from the capital rules. This policy exception was codified in Section 171 of Dodd-Frank. However, the statute did not make a similar exception for savings and loan holding companies under $500 million.

I believe the current regulatory argument is that Section 171 does not allow it to make exceptions for small savings and loan holding companies. I do not understand why it is acceptable to deviate from Dodd-Frank on some issues but not on this issue. It would seem that someone apparently forgot to include an exemption for very small shell thrift holding companies such as ourselves. Maybe it was because our past primary regulator, the OTS, was no longer available for input, or that as a savings and loan holding company added to a new regulatory environment, the ABA, OCC and Federal Reserve, just plain forgot about us. Otherwise what could be the justification for excluding bank holding companies under $500 million from the capital rules and not savings and loan holding companies when there is no basic difference between the two entities other than their charter? This would create a competitive disadvantage for us compared to small bank holding companies.

Without an exemption, our small shell savings and loan holding company will be subject to the full set of capital rules including the common equity Tier 1 capital ratio and the capital conservation buffer. This additional capital requirement would force me to devote a considerable portion of time, effort, and expense to comply with this potential new requirement. Unlike the larger financial institutions, we do not have a staff of lawyers and compliance experts to review the new rules or to help ensure that we are meeting their requirements. I believe that as drafted, the proposal would force small shell savings and loan holding companies to question the ongoing viability of the savings and loan holding company structure.

The Board of Governors of the Federal Reserve System (Board), in the body of the proposal stated "because the Board has not fully implemented reporting requirements for savings and loan holding companies, it is unable to determine the impact of the proposed requirements on small savings and loan holding companies." Basically the regulatory agencies have no data on small savings and loan holding companies such as us and how the proposal would impact our capital requirements. Since our holding company has never had to undergo a capital requirement calculation, the recently released "estimator tool" is of no help in this area and, therefore attempting, to calculate the proposal's impact presents me with a conundrum.

Please consider revising the proposed rules to exempt small savings and loan holding companies with assets of $500 million or less from the Basel III capital rule regime similarly to the Federal Reserve's long standing policy position exempting small bank holding companies with assets of $500 million or less.

<u>Issue of Concern:</u> Phase out of Trust Preferred Securities as Capital Instruments

Inconsistent with the intent of the Collins amendment, the proposed Basel III capital rule does not grandfather trust preferred securities for holding companies such as ours, permitting the inclusion of 90% of the carrying value of such instruments in 2013, with annual 10% decreases in the includible amount through 2021, until the instruments are fully phased-out on January 1, 2022.

Our holding company currently has $3 million in trust preferred securities. Phasing out this source of capital would have a significant impact upon us as it would effectively reduce our capital by $300,000 (10% of $3,000,000) per year for the next 10 years. Therefore, the first

$300,000 in net income, a significant portion of overall net income, would just serve as a replacement for the excluded trust preferred phase out.

Small banks, such as ours, are faced with greatly reduced alternatives to raising capital which makes it all the more difficult to replace trust preferred securities of which Dodd-Frank never intended to be phased out for community banks such as ours. The proposed rule should be revised to fully recognize the intent of the Collins amendment by permanently grandfathering outstanding trust preferred securities for institutions such as ours.

Many have criticized trust preferred securities as an inferior form of capital for a financial institution. However, during the financial crisis beginning in 2008, our trust preferred securities stood just as strong a source of capital as the common shares of the holding company. Our organization relied on our trust preferred securities as an overall buffer for the organization just as we would with any other source of quality capital.

Issue of Concern: Allowance for Loan and Lease Losses

The allowance for loan losses inclusion in total capital should not be capped at 1.25% of assets. All of the allowance for loan losses should be included in tier 1 capital since it represents the first line of defense against a capital-absorbing loss.

Issue of Concern: Implementation Timeline

The implementation timeline is very aggressive for community banks to meet minimum capital requirements thereby providing limited opportunities to build capital.

Issue of Concern: Substantial Increase in the Risk Weighted Asset Amount for Residential Mortgages

The proposed new methodologies for risk weighting mortgages will have a significant impact upon the Bank. These existing mortgages were underwritten and priced under current capital regulations and to have to reclassify all of our existing mortgages under the proposed rules would be very difficult and time consuming. We can and would adjust our lending practices going forward based upon the proposed risk weightings; however it would be detrimental to our community. Not all of our borrowers fit in the "saleable" box and as such, on occasion, we may portfolio loans for example with a higher loan to value ratio. Going forward we would have to price these loans higher thereby causing the consumer to pay more or quite possibly deny a loan that we otherwise might have made just because of the additional amount of capital to be set aside for such a loan. Any final rule, at the very least, should grandfather all existing mortgage exposures by assigning them risk weights as required under the current general risk-based capital requirements.

In closing, while it is difficult to measure the true impact on small thrift holding companies, as pointed out earlier, the implementation of new capital standards along with the elimination of trust preferred securities in the capital calculation will certainly have a material impact on the operation of the thrift holding company. Especially when compared to small bank holding companies, thrift holding companies will be placed at a competitive disadvantage to comparable local institutions. At the same time, the effect on our local communities will be great Increased capital requirements and the elimination of current capital will certainly slow lending growth at a critical time for Northwest Indiana. There are very few opportunities to acquire additional capital in today's market for a community thrift holding company. Thus, institutions will be forced to curtail their lending activity in an effort to curtail growth, and in many circumstances organizations such as ours will actually reduce their balance sheets to remain well capitalized.

While there is justification for higher levels of capital, I believe for small community banks and holding companies such as ours, that this objective can be achieved through the supervisory process and not by increasing the complexity of the capital rules. We hear constantly that the regulators want the community banking model to thrive, however, given the extent of proposed regulations, it will become even more difficult for community banking to survive, let alone thrive.

Sincerely,

M chael Mellon
President and Chief Executive Officer
AMB Financial Corp
American Savings FSB