American Bank & Trust
Traditional Banking at its Best.

October 22, 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: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] 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.

The banking industry is facing multiple challenges today that will pose a significant threat to its local economy, earnings, and capital. When evaluating the potential impact of these proposed standards, a bank must also consider other changes being proposed from the accounting industry (FASB) and how our country chooses to address our deficit through spending cuts and increased income tax rates. The bank and the regulatory bodies should NOT evaluate the impact of these proposals with "blinders on" as both parties must consider the impact of other outside factors on the horizon. The changes proposed by FASB and higher income tax rates have the same common effect as both will **LOWER banks' capital levels**. The issues and concerns presented are not intended as all inclusive, but purely focused on the items of most significance.

Bank management has done extensive analysis on how significant the results of these proposals will impact our bank in its current proposed form. We have several concerns, but will focus on the most significant first. The "Standardized Approach NPR" is the one that causes the most heartburn. Specifically, the change in "Risk Weighting" of assets will cause more harm than most realize. We are a community bank that originates 1-4 family loans for our community.

[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.*

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$300.9 million. In comparison, I utilized the "Regulator's Tool" (see attached report), which showed RWA increasing to $325.6 million. If we use our RWA's total, our capital ratios would decrease to the following (Tier 1 RBC 8.23%, Total RBC 9.38%) The Regulator Tool" Summary results show the bank to remain "Well Capitalized" if Basel III Rules only apply. However, if both Basel III and Standardized Approach apply, then the bank is in the "Undercapitalized" PCA Category with a negative "Capital Conservation Buffer". In order to re-establish our status of being "Well Capitalized" we would need to increase capital by over $3 million, which is increasingly difficult since the proposal further restricts "eligible capital". There would be additional capital required should tax rates increase (lowers retained earnings) and the FASB proposed changes go into effect (ALLL methodology, lease accounting, etc.)

The current economic situation both locally and globally are significantly challenged, with increased likelihood of further deterioration. The "fiscal cliff" must be addressed and when it does the results will be another strain on our weak economy. Community Banks play a significant role in helping an economy grow, but the increased capital levels will definitely slow down or cease lending to economic developments that can help a community and the nation get back on its feet. The one option with the largest impact for an institution is to de-leverage its capital position by shrinking its loan portfolio. Again, how will this impact our communities that we serve and the nation as a whole?

Recommendations

We strongly recommend that small to medium sized banks be exempted from the risk weight changes (Example <$5-10 Billion in assets). In addition, imposing distribution prohibitions on community banks with a Subchapter S corporate structure conflicts with the requirement that shareholders pay income taxes on earned income. Those banks with a Subchapter S capital structure would need to be exempt from the capital conservation buffers to ensure that their shareholders do not violate the provisions of the Internal Revenue Code. **We recommend that the capital conservation buffers be suspended during those periods where the bank generates taxable income for the shareholder**.
We encourage each agency to delay any phase of these proposals until further consideration is given to alternative solutions to what results are desired. From a simple basis, it appears that the change could be as simple as raising capital requirements without touching many of the other proposed changes imbedded into these NPRs. Please contact me should I be of any assistance.

Sincerely,

Timothy Schueler

Timothy Schueler
Chief Financial Officer

Scoping Questions

Answering the following questions may help limit the number of values that your institution will have to enter on the following tabs. Selecting 'Yes' will highlight cells in yellow that should be input by the user.*

CERT: 35568

Basel III

Please indicate whether your institution has the following exposures (other than deferred tax assets, most community institutions likely do not have such exposures).

1)	Qualifying minority interest - if 'Yes' see Minority Interest tab	No
2)	Deferred tax assets (DTAs) that arise from operating loss carryforwards	No
3)	Deferred tax assets arising from timing differences	No
4)	Investments in your own capital instruments and reciprocal holdings	No
5)	Securitization gains on sale	No
6)	Significant investments in other institutions' common stock	No
7)	Gains or losses from cash flow hedges for items not at fair value	No
8)	Non-significant investments	No
9)	Significant investments in the additional tier 1 instruments or tier 2 instruments of another financial institution	No
10)	Non-qualifying capital instruments subject to the transitional phase-out	No

Standardized

Please indicate whether your institution has the following exposures.

1)	Residential mortgage loans	Yes
2)	Exposures that are characterized as High Volatility CRE	Yes
3)	Securitization exposures - does not include GSE pass-through securities	No
4)	Equity exposures other than FRB/FHLB stock - if 'Yes' see Equity Investments tab	No
6)	Commitments with an original maturity less than 1 year that are not unconditionally cancelable	Yes
7)	Collateralized transactions that would be applicable for the substitution approach (optional)	No

Basel III Approach Inputs

AMERICAN BANK&TRUST CO INC	**35568**	**BOWLING GREEN, KY**	**$240,320**

Common Equity Tier 1 (CET1) Capital	(000)	(000)
+ Qualifying common stock instruments and related surplus		$11,801
+ Retained earnings		$9,726
+ AOCI		$511
+ Qualifying common equity tier 1 minority interest		$0
- Gains / Losses on Cash Flow Hedges related to items that are not fair valued		$0
- Goodwill and other intangibles (other than MSAs)		$0
- DTAs arising from operating loss and tax credit carryforwards		$0
- Change in fair value of financial liabilities		$0
- Investment in institution's own CET1 capital instruments and reciprocal holdings		$0
- Securitization gain on sale		$0
- Non-significant investments in the form of common stock	$0	$0
- Regulatory deductions due to insufficient additional tier 1		$0
Mortgage Servicing Assets (MSAs)		$0
DTAs arising from temporary timing differences		$0
Significant investments in the form of common stock		$0
- Deductions due to 15% threshold		$0
- Minimum MSA deduction (10% of FV of MSAs)		$0
= Common Equity Tier 1 Capital		**$22,038**

Tier 1 Capital	(000)	(000)
+ Additional tier 1 capital instruments plus related surplus		$0
+ Tier 1 minority interest not included in CET1 capital		$0
Non-qualifying tier 1 capital instruments subject to phase-out	$0	
- Investment in institution's own tier 1 capital instruments and reciprocal holdings		$0
- Significant investments in additional tier 1 instruments		$0
- Non-significant investments in additional tier 1 instruments	$0	$0
- Regulatory deductions due to insufficient tier 2 capital		$0
= Tier 1 Capital		**$22,038**

Tier 2 Capital	(000)	(000)
+ Tier 2 capital instruments		$0
+ Total capital minority interest that is not included in tier 1 capital		$0
+ Estimated ALLL includable in tier 2		$2,190
- Investments in institution's own tier 2 capital instruments and reciprocal holdings		$0
+ Non-qualifying tier 1 capital instruments includable in tier 2		$0
- Significant investments in tier 2 instruments		$0
- Non-significant investments in tier 2 instruments	$0	$0
= Tier 2 Capital		**$2,190**

Total Capital		(000)
= Tier 1 Capital + Tier 2 Capital		**$24,228**

Risk-Weighted Assets		(000)
Current Risk-Weighted Assets		$174,293
+ Items currently disallowed or neutralized		$0
- Basel III regulatory adjustments and deductions		$0
+ Threshold items not deducted		$0
Basel III Risk-Weighted Assets		**$174,293**

Standardized Approach Inputs

AMERICAN BANK&TRUST CO INC	35568	BOWLING GREEN, KY	$240,320

The tool estimates RWAs under the Standardized Approach by adjusting current RWAs for the categories listed below. This sheet asks for four different types of inputs: gross exposures, current RWAs, RWAs under proposed rules, and changes in RWA. Carefully determine the input required for each cell.

Risk-Weighted Assets			(000)
Current Risk-Weighted Assets			$174,293
1-4 Family Residential Real Estate Risk-Weighted Assets			$39,141
Securitization Risk-Weighted Assets			$0
Securitization Risk-Weighted Assets under Proposed Rules			
SSFA Method			$0
Gross-up Method			$0
1250%			$0
	Risk Weights		
1-4 Family Residential Real Estate	**Current**	**Proposed**	**Exposure**
Category I by LTV range:			
Less than 60%	50%/100%	35%	$0
60 to 80%	50%/100%	50%	$0
80 to 90%	50%/100%	75%	$0
Over 90%	50%/100%	100%	$0
Category II by LTV range:			
Under 80%	50%/100%	100%	$0
80 to 90%	50%/100%	150%	$9,569
Over 90%	50%/100%	200%	$85,953
Past-Due and Nonaccrual Loans (excl. 1-4 Family RRE)	100%	150%	$207
High Volatility Commercial Real Estate (current only)	100%	150%	$2,431
Equity Exposures			
Change in risk-weighted assets			$0

Risk-Weighted Assets	CCF/Risk Weight		(000)
	Current	**Proposed**	**Exposure**
Credit Conversion Factors (CCF)			
Commitments with an original maturity less than 1 year that are not unconditionally cancelable	0%	20%	$14,398
Collateralized Transactions, where collateral is:			
Cash on deposit at the bank or third party custodian	20%	0%	$0
US Government securities (discounted by 20%)	20%	0%	$0
Investment grade debt securities			
Securities subject to a 20% risk weight (excluding GSEs)		20%	$0
Securities subject to a 50% risk weight		50%	$0
Securities subject to a 100% risk weight		100%	$0
Other collateralized transactions not covered above			$0
Other (Optional input)			$0
Threshold Items Not Deducted from CET1			$0
New Adjustments			$151,317
Risk-Weighted Assets under Standardized Approach			$325,610

Summary and Timeline

AMERICAN BANK&TRUST CO INC	35568	BOWLING GREEN, KY	$240,320

Summary Estimates for Fully Phased-in Proposals (as of 2022) - Comparisons

Dollar Amount (000)	Current Rules	Basel III Rules Only	Basel III and Standardized
Common Equity Tier 1 Capital	n/a	$22,038	$22,038
Tier 1 Capital	$21,527	$22,038	$22,038
Tier 2 Capital	$2,190	$2,190	$2,190
Total Capital	$23,717	$24,228	$24,228
Risk-Weighted Assets	$174,293	$174,293	$325,610
Average Assets	$234,931	$234,931	$234,931

Basel III and Standardized RWA =	
Standardized RWA	$325,610
Plus Items Currently Disallowed/Neutralized	$0
Less Basel III Adjustments	$0
Total Combined RWA	$325,610

Regulatory Ratios	Current Rules	Basel III Rules Only	Basel III & Standardized
Leverage Ratio	9.16%	9.38%	9.38%
Common Equity Tier 1 Capital Ratio	n/a	12.64%	6.77%
Tier 1 Capital Ratio	12.35%	12.64%	6.77%
Total Capital Ratio	13.61%	13.90%	7.44%

Phase-In Timeline Comparison with Minimums (including Capital Conservation Buffer beginning in 2016)

Select Proposed Change(s) to Current Rules --> Basel III and Standardized

	2013	2014	2015	2016	2017	2018	2019
PCA Category	Well	Well	Undercapitalized	Undercapitalized	Undercapitalized	Undercapitalized	Undercapitalized
Conservation Buffer Maximum Payout	n/a	n/a	n/a	0%	0%	0%	0%
Leverage Ratio	9.16%	9.21%	9.25%	9.29%	9.34%	9.38%	9.38%
Common Equity Tier 1 Capital Ratio	12.35%	12.41%	6.67%	6.71%	6.74%	6.77%	6.77%
Tier 1 Capital Ratio	12.35%	12.41%	6.67%	6.71%	6.74%	6.77%	6.77%
Total Capital Ratio	13.61%	13.67%	7.35%	7.38%	7.41%	7.44%	7.44%
Capital Conservation Buffer				-0.62%	-0.59%	-0.56%	-0.56%

Summary and Timeline

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Phase-In Timeline Comparison with Minimums (including Capital Conservation Buffer beginning in 2016) -

Select Proposed Change(s) to Current Rules --> Basel III Rules only

	2013	2014	2015	2016	2017	2018	2019
PCA Category	Well	Well	Well	Well	Well	Well	Well
Conservation Buffer Maximum Payout	n/a	n/a	n/a	No Limit	No Limit	No Limit	No Limit
Leverage Ratio	9.16%	9.21%	9.25%	9.29%	9.34%	9.38%	9.38%
Common Equity Tier 1 Capital Ratio	12.35%	12.41%	12.47%	12.53%	12.59%	12.64%	12.64%
Tier 1 Capital Ratio	12.35%	12.41%	12.47%	12.53%	12.59%	12.64%	12.64%
Total Capital Ratio	13.61%	13.67%	13.72%	13.78%	13.84%	13.90%	13.90%
Capital Conservation Buffer				5.78%	5.84%	5.90%	5.90%