October 20, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
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Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
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Greetings from the Pacific Northwest:

On behalf of the Staff and Board of Directors of Raymond Federal Bank of Raymond WA, we appreciate the opportunity to provide comments on the Basel III Capital Proposal.

Raymond Federal is the smallest thrift in the state of Washington with assets of $56 million and three offices in Pacific County. We are a traditional thrift institution and a portfolio lender. As of June 30, 2012 we had a capital leverage ratio of 9.90%, a Tier 1 Risk Based Capital Ratio of 20.92%, and a Total Risk Based Capital Ratio of 20.92%. Our mission is to serve our market and our customers.

The bank has been in business since 1925. In a day where home mortgages are originated by behemoth institutions and sold to a servicer in far parts of the country, we provide interpersonal service in the mortgage origination process. Our customers know where their loan will be serviced,
the know who will be serving them, and they know they can always pick up
the phone and call, or actually stop in and visit with us. Quite a contrast.

The Bank has a strong capital position and will be minimally impacted in
the initial stages of implementation of the regulation. However, we are
concerned about the impact on our customers, down the road, as well as
the overall impact on the banking industry and the economy as a whole.

The Basel III proposal is a highly complex regulation that we believe will be
detrimental to community banks of all kinds; Mutuals, Stock, and
Subchapter S institutions. Specific concerns include:

- The capital proposal is arbitrary and places too much emphasis on higher
  levels of capital without regard to the other types of risk a bank must
  manage. If we have learned anything during the different credit crises
  which have occurred over the last thirty years, one must focus on all the
  risks, including: liquidity, solvency, interest rate, and credit risk. The most
  important of these is credit risk. Adequate capital provides a cushion to
  help with asset quality problems. It does not fill the void created when
  sound underwriting and credit practices are not part of the culture of the
  institution.

- The increases in the risk rating of some Mortgage Loans will make home
  loans more difficult to obtain. This is counter-productive for our housing
  market, which has been struggling for the past 5 years. It penalizes small
  local portfolio lenders like Raymond Federal and most importantly, our
  customers. In spite of the fact that community banks had very little to do
  with the mortgage meltdown scenario.

The impact on the communities we serve will be negative. Our county is
one of the more economically distressed counties in the state of
Washington. Our customers and communities have been positively
impacted by the lending that has been done by Raymond Federal Bank.
This regulation will restrict our ability to make many credit worthy loans
and help our customers.

- We believe that the higher risk rating on loans which are typical first time
  homebuyer loan – low down payment backed by Private Mortgage
  Insurance (PMI) - overstates the risk inherent in this type of loans. Our
  recent experience with a limited of number foreclosures shows that the
  loans insured by PMI had significantly smaller losses than did those that
  had a 20% (or more) down payment and no PMI. Granted, the strength of
  the Insurance Company needs to be taken into consideration. That is only

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common sense. But to be so restrictive when it is clearly not warranted, shuts out the qualified first time homebuyer.

With the credit availability significantly reduced for first time homebuyers the impact will be negative on the affected customers and the local real estate market.

-The arbitrary increase in capital will reduce return on equity which will reduce the stock price for stockholder owned banks, at a time when banks will be forced to go raise capital. This double edge sword is counter-productive to meeting the credit needs of customers and local markets. We are further concerned that the impact on the macro-economy will be to depress loan growth by the “artificial” increases in the capital requirements. This in turn will help depress the economy.

-Last but not least is the way the proposal handles delinquent loans. When evaluating problem credits, a detailed and exhaustive analysis of the allowance for loan and lease accounts (ALLL) is required of all financial institutions. To arbitrarily increase the risk rating on a problem credit at the same time that each loan has been addressed by the ALLL analysis is needlessly punitive.

We acknowledge that there are many more points in the proposal which could be discussed. We chose to select four of the more salient points, from our perspective. We reiterate our concern for the macro-economic impact of arbitrarily increasing the capital requirements of community banks. Now is not the time to hamstring community banks with the overkill of this regulation

Before implementing a regulation of this nature, we implore the regulators revisit the proposal and the impact which it will have on community banks. If you want to get rid of a large number of community banks and have only “too big to fail” large banks, this is certainly a way to accomplish such a feat. This in turn will make it more difficult for real people in our communities find the right financing to purchase the American Dream.

In closing, we are most appreciative of the opportunity to comment.

Sincerely,

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