

From: First American Bank, Donald A. Roubitchek
Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules
Subject: Regs H & Y Regulatory Capital Proposals

Comments:

Under Basel III, it is proposed that Other Comprehensive Income ("OCI") related to market value changes in bonds be included as Common Tier 1 Capital. We feel that this is a dangerous change filled with many unintended consequences and it should be reconsidered. Following are our concerns:

Why select only one asset group, or only one balance sheet group, for mark-to-market? Banks that are more heavily or less heavily weighted in bonds will be more or less impacted than others. This is unfair treatment. Bond market values are subject to fluctuation as interest rates change. If OCI is counted as part of Common Tier 1 Capital, it will become very difficult if not impossible to manage capital levels.

Bond market values are also subject to credit quality changes. It is reasonable that credit quality changes should impact capital ratios. Therefore, one suggestion would be to exclude OCI for those bonds with governmental backing such as US Treasuries, GNMA, US Agencies and municipal securities. This would avoid most of the uncontrollable fluctuation in Common Tier 1 Capital.

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