The Bank of Tampa

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October 15, 2012

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

Re: "Basel III Docket No. 1442"

Dear Ms. Johnson,

I appreciate the opportunity to comment on the proposed *Basel III* risk based capital requirements and other requirements recently approved by the Federal Reserve Board, The Comptroller of the Currency and the Federal Deposit Insurance Corporation. I am of the opinion that the *Basel III* capital requirements will have a significant negative impact on the ability of community banks to make loans that are needed by communities we serve.

In particular, the manner in which residential loans (particularly those with a balloon feature, and loans that exceeded a 90% loan to value), will be affected will all but eliminate residential loan origination by many community banks. I believe most bankers realize that there is a need for more capital in the banking system and agree that there is a need to provide more oversight of residential lending, especially among non-bank residential lenders. However, with that said, we are not aware of any empirical evidence that residential balloon mortgages have any more credit risk than a fully amortizing loan. Commercial banks cannot make thirty year fixed rate loans, due to the interest rate risk associated with a loan of this length of time. In our bank, and I am aware of many other community banks with similar experiences, we have not experienced any more loss on a loan with a balloon structure than with any other type of residential loan.

The Bank of Tampa currently makes about $1,000,000 in residential first mortgage loans each month to borrowers who are either unable to fit "into the box" of a secondary market loan, often due to the fact that they are small business owners and income is either not consistent or difficult to document, or, they simply prefer to deal with a lender they know and with the knowledge that their loan will not be sold into the secondary market. If it becomes necessary to allocate twice the capital to our residential first mortgage loan portfolio, it is very likely we will stop making these types of loans. If community banks across the country make a similar decision, the impact on the housing market will be sizable.

In addition to our first mortgage lending portfolio, we also have a $100,000,000 home equity portfolio. Most of the lines are secured by second mortgages on homes with loan to value ratios at the time that they were originated of being 90% or less. Our home equity lines have ten year maturities. As they mature, we renew them as long as there has been a good payment history, without regard to the current loan to value of the loan. Also, at the time these lines were originally extended, our files may not have contained all of the information that *Basel III* will now require. If our home equity portfolio will now be regulated according to *Basel III*, the additional risk based capital requirement will be significant. The result will be that we will have to shrink our assets, at a time when our community needs us to help it recover from the recession. This isn't good public policy.

While our primary concern is the impact *Basel III* will have on residential lending, we are also concerned about our ability to correctly calculate risk based capital due to our inability to stratify our loan portfolio as will be required by *Basel III*. Extracting loan data, such as current loan to values, and obtaining data on borrowers that was not required when the loans were originated, will place additional cost on our bank. In addition, the complexity of the methodology of calculating risk based capital will make it difficult for us to do correctly, and we believe will make it difficult for regulators to regulate. To support our concern, I would like to point out that as of October 10, 2012, the three banking regulators have not been able to agree on a common methodology for determining risk based capital, as is evidenced by the fact that the agencies have not been able to release a common calculator to assist banks in understanding the impact the new risk based capital allocations might have on their banks.

Last, we are very concerned about the requirement that gains and losses on the "available for sale" securities must flow to regulatory capital. Since there is little our bank can do to control the impact of a rising rate environment on our $360,000,000 investment portfolio, we will forced to control the impact that interest rate risk will have on our capital by shortening the maturity of our portfolio, and quite possibly leading us to earn less interest income. Mortgage back securities and government agencies will be less attractive to us. Our bank simply cannot afford the risk of having our capital impacted by marking to market a $360,000,000 bond portfolio and we will accept less investment income as a result.

In closing, I strongly urge you to reconsider the original purpose of *Basel III*, which was to require complex banks to hold more capital on their balance sheets, based on the complexity of their balance sheets. I ask you to exempt those banks with assets under $50 billion dollars for *Basel III*.

Sincerely,

George W. Erck
SVP - Credit Administration

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