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October 15, 2012

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

I am writing in reference to the Basel III Proposed Capital Regulations. Our Bank is a $200 million financial institution located in rural Colorado. We are concerned with the proposal to include the market value adjustments of available for sale securities in the calculation of the Basel Tier Capital ratio. This practice would create significant capital volatility concerns within our institution particularly when we are currently is a low interest rate environment. An initial analysis of the effects on our institution is provided below.

	-100	0	100	200	300
Basel Tier 1 Capital Ratio	12.88%	11.92%	10.14%	7.56%	4.85%

This proposal has significant impact on our institution without regard for liability hedging that in practice to a certain extent offsets the risk of interest rate movements. This is part of a sound risk mitigation strategy employed by Bank Management; however, it is completely ignored by the Basel III capital proposal. The result is punitive to the Bank and will result in alterations in investing and lending strategies that are not in the best interest of the Bank nor the financial industry.

Excessive amounts of capital will have to be retained to offset the potential risk thus limited our ability to grow the asset side of the balance sheet. Credit will be restricted and loan balances will fall, income will most certainly be diminished all in the name of an accounting process that does not mirror reality.
Most pricing services use a matrix approach, which is not the true market value. In a market that includes collateralized mortgage backed securities, a matrix pricing system will give the same market

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value to securities with significantly different true market values. Different pricing services will give different market values for the same security at different institutions thus creating inconsistency in bank reporting. The Bank's focus will shift to beating the system, rather than assessing, valuing and mitigating the risks associated with investing.

Additionally, the recognition of market value effects on capital already exists in the form of the Economic Value of Equity (EVE). The EVE, unlike the Basel proposal, applies market values to the entire balance sheet providing a more accurate picture of the health of an institution.

Another implication of this proposal will be for us to designate our investment portfolio as Held to Maturity (HTM) rather than Available for Sale (AFS). This designation severely limits our ability to manage our investment portfolio and our liquidity position. Our investment portfolio provides a significant source of liquidity, but selling an investment with an HTM designation requires the change of all HTM investments to an AFS designation. The capital effect would keep us from taking this action, thus restricting a major source of liquidity.

I strongly urge you to exempt community banks or completely remove the inclusion of unrealized gain/loss on investments as a component of Tier 1 Capital. Thank you for the opportunity to comment on this proposal.

Sincerely,

Randy L Pieper

Randy L Pieper
CEO