

October 17, 2012

Federal Reserve Board

RE: Basel III and Standardized  
Approach for Risk-Weighted  
Assets

Dear Sirs,

Please let this letter serve as my comment on Basel III, Proposed Regulatory Capital Rules and the Standardized Approach for Risk-Weighted Assets, the "NPRs." I am the Chairman of the Board of JP Stone Community Bank, a New Mexico Chartered Banking Association, a \$180 million size community bank, with branches in Portales, Clovis, Roswell, Hagerman, Hobbs, and Eunice, New Mexico.

There are at least three aspects to the NPRs which hurt community banks.

- (1) Concerning residential loans, to stay within regulator "radar" of 30% ratio of long term assets to capital, we include an eight (8) year call for interest rate adjustment. Once the eight year call becomes a five (5) year call with a passing of two years of the loan term (residential lending rules require an eight year call as the shortest call feature allowed for the residential loan) the loan is dropped from our Call Report category of long term assets. Because of the existence of any call aspect of the loan, the proposed risk-weighted asset rules would apply to this loan, regardless of the low risk of a particular loan. These loans are an important part of our loan portfolio and also meet the needs of the small communities in which we have bank locations.
- (2) The Capital Conservation Buffer Rule will add an additional "load" which community banks will have to carry, with the prohibition against dividends. If the buffer requirements aren't met, both future and current investment in community banks are affected. If dividends can't be paid, both the current investor and the future investor will go somewhere else.
- (3) The second aspect of dividend limitation under the "Buffer Rule" would affect the federal income tax distributions to Subchapter S holding companies such as ours. Tax dividends to the holding company are distributed by dividend to its shareholders for payment of the Bank's income tax. Presently, it's my information that regulators are fairly understanding about the necessity to make such dividends to the Subchapter S holding company. The restrictions of the proposed rule will make it an absolute prohibition. Then the shareholders are required to pay the Bank's income tax out of their own pocket, a fatal aspect to the life of a community bank. Unless The Bank can return to a C Corporation status, but the shareholders are denied protection from double taxation.

Why apply the NPRs to community banks? We were not the cause of the recent financial upheaval. We serve a large segment of our country, the small towns and cities of America. Please help us continue to serve "Small Town USA" by exempting us from the NPRs.

Yours very truly,

D. Barry Stone