



THE BANK OF  
WASHINGTON

QUALITY LOCAL BANKING

October 19, 2012

Jennifer J. Gonzales, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC, 20551

Re: Regulatory Capital Rules proposals - Basel III  
Docket No. R1430; RIN No. 7100-AD87  
Docket No. R-1442; RIN No. 7100-AD87

Dear Ms. Johnson:

As CEO of a small community bank in suburban Seattle, I write to express my alarm and opposition to most of the provisions of the recently issued proposed rules over regulatory capital. I am not an advocate of special treatment for banks of any size or stripe, but at the same time the capital rules as proposed seem to fundamentally ignore the way community banks actually operate and their value to local communities. Different rules do not equate to special treatment.

The impact on communities will be less available credit. Using my own bank as an example, we have become expert in shrinking our institution to fit within existing capital and available community investment. I am pleased to say that The Bank of Washington's Tier 1 Leverage has remained in excess of 11% for the last 7 quarters – but the price has been to shrink the bank from nearly \$200 million in assets to <\$130 million. Our loan portfolio has fallen at an even faster rate. Higher capital requirements – especially when Trust Preferred Securities are excluded from regulatory capital – will lead to smaller and fewer community banks and less credit availability.

Washington State was a hot-spot of excessive residential construction and development lending, and many community banks here suffered or perished as a result. I offer no defense for my colleagues at these failed institutions. However, many failed banks started the down-cycle in real estate with abundant capital and reserves. Excessive concentrations led to losses that simply overwhelmed their capital. The lesson is that to ensure a vital community bank sector, regulatory focus must be on credit concentrations first and foremost.

Capital buffers as proposed will be self-defeating – scaring away community investment due to lower ROE potential and providing inadequate protection during periods of stress. I urge you to start over in your approach to community bank capital requirements. This complex proposal is not right for smaller banks and will, I believe, be ineffective in safeguarding my industry. Applying the proposed capital rules to community banks will only serve to reduce credit availability in the communities we serve.

Respectfully,

Bruce Clawson  
President and CEO

19424 58th Place West    425-275-5600 main  
Lynnwood, WA 98036    425-275-5601 fax  
[www.the-bank.com](http://www.the-bank.com)