From: American Federal Bank, Dean McCleary

Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

Ladies and Gentlemen:

I am writing to comment on the proposed Basel III capital requirements. As the CFO of American Federal Bank of Fargo, ND, I have strong concerns that this proposal will do much to harm community banks such as ours.

American Federal Bank has 13 locations in the Red River Valley, both in North Dakota and Minnesota. We have operated our organization in a safe and sound manner and were not part of the housing crisis. We have worked hard to manage our risks, and have enjoyed our best performance during this tough economy.

During 2012 we have been bombarded with regulatory and compliance changes aimed to FIX BANKING once again. As a thrift institution we have been moved from the OTS to the OCC, from the TFR to the Call Report, and we are dealing with Dodd-Fank and many other regulatory changes, and now the Basel III proposal. This "one-size-fits-all" approach is very concerning and harmful to community banks such as ours. I believe the capital requirements of Basel III might be appropriate for large domestic banks and foreign banks, but are not appropriate for the small community banks.
The following areas of the Basel III proposal are of concern to me:

1. Requiring AFS investment gains/losses to flow through capital will add volatility to our equity, which seems the opposite of what is intended. Interest rates will eventually go up and gains will turn to losses that will impact equity, even though we intend to hold these investments. This change will take away flexibility in managing our investments and will add capital volatility to the picture for us and other institutions like ours.

2. Elimination of Trust Preferred Securities as capital. Our Bank has held $6M in Trust Preferred Securities for the past 10 years. This has been a cost effective way to grow our business. This form of capital was grandfathered in under Dodd-Frank, but the Basel III proposal would eliminate this capital for our Thrift Holding Company, which will force us to either shrink our balance sheet or seek additional capital.

3. Increasing the risk weightings for residential mortgage loans. We have made mortgage loans in MN/ND for many years with very few losses or credit concerns. Our underwriting is such that we lend to people on properties that they can afford and structure loans so that they can manage their finances and retain their home ownership. We did not make stupid home loans and were not part of the housing crisis. The new risk weightings proposed for residential mortgages will force us to reconsider our product lines as higher capital costs will force changes in the way we do business.

The idea of risk weighting individual residential loans would be an administrative nightmare for us to manage.

4. Holding capital for residential loans sold in the secondary market. Another proposal which will clearly drive community banks away from mortgage lending. We've sold properly underwritten loans on the secondary market for years without any issues, but this change would now require a significant amount of additional capital be directed toward this area, again forcing us to change our business practice.

5. Changes in risk weightings for home equity and second lien loans. We have made these types of loans for years without any losses or credit quality concerns, but with the proposed change in capital costs, we would need to re-evaluate our ability to continue making these types of loans.

Efforts to FIX BANKING with 1 set of rules for all banks large and small does not make sense to me. Pushing this type of legislation is an over reaction in my opinion and will create far worse problems than it will fix. The Basel III proposal will help to eliminate small community banks and will encourage the only survivors will be a few large banking organizations. How sad it will be so see community banks pay the price for the problems that were created by others. Community Banks had little or nothing to do with the recent economic debacle largely created by the misuse of sub-prime and Alt A residential loans made primarily outside the banking system and securitized by large investment banks. I urge you to consider limiting the BASEL III proposals to only the large bank organizations and let small community banks continue to focus on doing things that make sense. Thank you, Dean McCleary

Dean McCleary
American Federal Bank