



895 Main Street  
P.O. Box 938  
Dubuque, Iowa 52004-0938  
563.582.1841  
[www.americantrust.com](http://www.americantrust.com)

**John W. Marshall**  
Secretary-Treasurer

September 25, 2012

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington D. C. 20551  
**Delivered via email [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)**

Robert E. Feldman  
Executive Secretary  
Attentions: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N. W.  
Washington, D.C. 20429  
**Delivered via email [comments@FDIC.gov](mailto:comments@FDIC.gov)**

Office of the Comptroller of the Currency  
250 E. Street, S.W.  
Mail Stop 2-3  
Washington, D.C. 20219  
**Delivered via email [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov)**

Re: Basel III Capital Proposals

Ladies and Gentlemen:

As the Treasurer of a \$1 billion privately held community bank holding company, I appreciate the opportunity to comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of Currency and the Federal Deposit Insurance Corporation.

I share the goal of retaining ample capital in the banking industry to maintain the industry's ability to meet the needs of the individuals and businesses in our markets regardless of the state of the economy. Having lived through the most recent economic downturn and continuing to work with our clients as the economy grows sluggishly, the critical role of adequate capital is a primary concern to our future planning.

Although we share the same goal, I have some serious concerns regarding the current proposed changes related to Basel III as follows:

## **1. The immediate phase-out of Trust Preferred Securities beginning in 2013.**

Our banking organization was founded over 100 years ago by Dubuque community leaders primarily based upon the investment and initiative of one family. That founding family has continued to not only invest their funds, but invest their time and talents to maintaining this community banking organization. The original bank has evolved to a three bank holding company with each of its three banks dedicated to serving the needs of their local markets.

We believe the community banking model plays a vital role in the economic growth and vitality of the communities these local institutions serve. Our Company's banks are important to their communities economically, but also as good corporate citizens and community leaders.

Trust Preferred Securities were a welcome source of capital for our Company, and enabled the Company to expand its lending at a time our clients needed additional funding for healthy expansion. These securities are only \$19.5 million of our \$112.7 million Tier 1 capital as of June 30, 2012. These obligations mature in 2036 and 2037.

Our Company relied upon the regulations that were in place to raise this important Tier 1 capital. We relied upon grandfathering of Trust Preferred Securities under the Collins amendment to the Dodd Frank legislation for organizations our size as we developed our capital plans. The proposed rules not only change the rules, but begin reducing the recognition of Trust Preferred Securities in 2013 with continuing annual reductions each year thereafter.

The obvious strategy for Companies like ours is to replace the Trust Preferred supplied Tier 1 capital with tangible equity. There are two significant, practical issues:

- a. Private community banking companies have very limited access to equity capital especially under current economic conditions.
- b. Perhaps most relevant is the fact these rules will cause numerous community banking companies to seek capital immediately in a constrained capital market. The rapid increase in demand will increase the cost. Imposing this rule will undoubtedly cause many community banking institutions to sell to larger institutions, and cripple the community banking system that has served this country well for many years.

I respectfully request the intent of the Collins amendment to Dodd Frank be incorporated in the new Basel III capital rules by grandfathering Trust Preferred Securities for institutions with assets between \$500 million and \$15 billion as of December 31, 2009.

## **2. The requirement that unrealized gains and losses on available for sale securities (Accumulated Other Comprehensive Income or AOCI) flow through regulatory capital.**

Our organization does not actively trade investment securities. The investment portfolio is primarily held as a source of secondary liquidity. Both credit and rate risks are minimized by policy constraints. However, this proposal increases the portfolio's risk by adding price risk.

Under current accounting rules, the only companies required to record unrealized gains and losses are companies who trade these securities as a part of their business. Since community

banks generally do not trade securities, these rules do not apply. Although this proposal will not add to the earnings volatility that a trading portfolio creates, it does transfer that volatility to the reported regulatory capital.

To minimize this capital volatility risk, community banks will be forced to hold their investments as "hold to maturity." This will limit the use of securities as a source of secondary liquidity.

Ultimately, the current reporting rules show the unrealized gains and losses to the public and the regulators in manner that serves the need for transparency to the third parties. The proposed rules create a new risk to be managed by the banking institutions without providing any measurable benefit to the companies, the public or the regulators.

I respectfully request that the rules for recognition of unrealized gains and losses on securities be mainlined as is under the final Basel III capital rules.

### **3. The proposed increase in the risk weighting of home equity/second lien loans.**

This part of the proposal is perhaps the most puzzling to me. Our Company's experience with home equity lending is excellent with minimal credit losses. This may reflect the fact that our policies did not permit second lien loans in excess of current property values as many institutions permitted a few years ago.

Overall, these loans have provided much needed liquidity for creditworthy borrowers in our markets. They have served the borrowers' and the banks' mutual interests.

The high risk weights suggested in the proposed rules will increase the cost and reduce the availability of this type of credit. In the markets our Company serves this would harm many worthy borrowers and remove a profitable product from our Banks' portfolios.

I respectfully request that these risk weights be reduced in the final Basel III capital rules.

### **4. Other proposed changes to risk weighting.**

The proposed changes related to residential mortgage loans, "high volatility CRE, and delinquent loans add to the complexity of managing risk based capital. With all the current and proposed changes to regulations from the past few years, adding to the complexity of the risk weighting capital management system will be an additional burden for all banks, but especially for community banking organizations.

The cost of developing new reporting systems will be significant in terms of dollars and manpower. The benefits of the proposals to the capital management of the banking industry appears minimal by comparison.

In summary, the proposed capital rules will harm ATBancorp, and the communities we serve. More importantly, I believe many other community banking companies and their communities will likewise be harmed by these rules.

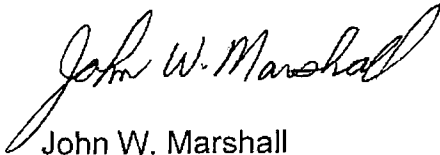
In fact, these rules may finally cause the off-predicted demise of community banking in the United States. Personally, I doubt this will be the result because most community bankers are dedicated to their communities and serving the legitimate needs of those communities.

However, these rules will harm this vital industry at a time when the economy needs more support and stability from its financial institutions. These rules will re-allocate resources from the borrowers who need funding to help grow the economy to hoarding capital by restraining lending.

My comments and requests are submitted with due respect to the effort each regulatory agency has made to develop the new rules. I know the goal of a well-capitalized and healthy banking is a mutual goal.

Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script that reads "John W. Marshall". The signature is written in black ink and is positioned above the typed name.

John W. Marshall  
Treasurer  
ATBancorp