FIRST TRUST
BANK

September 24, 2012

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

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

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

RE: Basel III Capital Proposals
OCC: Docket ID OCC-2012-0008; RIN 1557-AD46
FDIC: RIN 3064-AD95
FED: Docket No. R-1442; RIN 7100-AD87

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently published for comment. I ask that you consider the following issues and their potential impact on our financial institution and most importantly, our customers.

1. **Phase-out of Trust Preferred Securities (TruPS) as Capital Instruments** The phase out of TruPS as a source of capital may place new burdens on community banks. I ask that you revise this proposal, to keep with the intent of the Collins Amendment and Dodd-Frank, by permanently grandfathering any outstanding TruPS for institutions between $500 million and $15 billion.
2. **No exemption from Basil III Proposed Rules for Small Savings and Loan Holding Companies** As currently proposed, the rule would be costly and raise questions about the viability of savings and loan holding companies under $500 million.
3. **Credit Enhancing Representations (Removal of 120 Day Safe Harbor); Selling Mortgages on the Secondary Market** There is little evidence that the temporary representations and warranties associated with "pipeline mortgages" have resulted in

significant losses for regulated banking organizations, even during the financial crisis. We urge you to retain the 120 day safe harbor under the current rule.

4. **The Requirement that Unrealized Gains and Losses on Available-for-Sale Securities (Accumulated Other Comprehensive Income or ("AOCI") Flow Through to Regulatory Capital** The proposed rule would force every change, even daily changes, to be accounted for in the value of an AFS security. This would be unduly burdensome for small community banks. We request the rule be revised so that the unrealized gains and losses on AFS securities that reside in AOCI do not flow through capital. The revision would allow unrealized losses due to credit impairment to be reflected in capital, but would exclude the interest rate impact.
5. **Residential Mortgage Risk Weights and the Effects on Banks and Their Customers** At the very least: there should be a grandfather provision for existing loans and some consideration of private mortgage insurance. Also reconsider what qualifies as a Category 1.
6. **Home Equity Lending** We urge for an exception providing a financial institution holds two or more mortgages on the same property and the first lien is a Category 1 risk weight. An exception should be added so that both loans are not treated as Category 2.
7. **Treatment of Cash Flow Hedges** Cash flow hedges potentially subject to deduction present little or no economic risk to the bank. Please eliminate this proposed deduction.
8. **High Volatility Commercial Real Estate ("HVCRE")** Please reconsider this proposal to request the agencies maintain the 100% risk weight for HVCRE loans or at a minimum grandfather in existing HVCRE loans on a financial institution's books.
9. **Increased Risk Weights and Delinquent Loan Impacts** We ask this provision be revised to require financial institutions to adequately address this risk through allowances for loan and lease losses, and not by increasing the risk weight of delinquent loans. The provisions are penal in nature to banks who adequately address troubled credit through reserve loss settings and applying the new risk-capital weighting to the same loans is excessive and akin to double taxation.

Thank you.

Sincerely,

James T. Bolt

James T. Bolt
President/CEO