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September 5, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Delivered via email regs.comments@federalreserve.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Delivered via email 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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

Chartered in 1904, First National Bank of the Rockies (FNBR) is a $327,000,000.00 community bank with 10 offices in 7 northwestern Colorado communities from Grand Junction to Steamboat Springs. Our more rural communities are Meeker, Rangely, Craig, Hayden, and Oak Creek. FNBR

takes its role as a community bank seriously, lending to members of our communities in all types of businesses located in our markets. Most of the small businesses are "Mom and Pop" type businesses ranging from energy service companies to sheep and cattle ranching. Construction and development lending took a steep decline during the recent economic debacle. Deleveraging has impacted our loan-to-deposit ratio and we find loan demand to be very benign due to the current economic climate.

First, in general I would like to say that the capital requirements of Basel III, while they may be appropriate for very large domestic banks and foreign banks, are not appropriate for banks commonly referred to as "community banks". Community banks had little to 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 and lenders like Countrywide. According to the American Bankers Association (ABA) approximately 94 percent of such loans were made outside the banking system. And the community bank model is much different than the larger and systemically important banks and foreign banks. Community banks are not leveraged with material off balance sheet liabilities as are the large systemically important banks and large foreign banks. Generally, community banks are far more familiar with their customers and the risks associated with lending to local customers.

Second, the requirement of recognizing unrealized gains and losses on available for sale securities, reported through OCI, will have substantial impact on our bank's capital accounts. Market fluctuations will cause great volatility of the bank's capital. If the bank has the capability to hold these assets until maturity it should not have to mark the gains and losses creating large swings in capital over normal business cycle changes in interest rates. Our bank will be forced to either hold these assets as held for sale or stay very short in duration. Either case will limit the bank's ability to manage the investment portfolio in a manner appropriate for liquidity, earnings, and the ability to manage Interest Rate Risk (IRR).

Third, the proposed rules regarding residential mortgages will make mortgage loans more difficult to obtain in many markets, such as those typically served by community banks like our bank. Mortgage loans that we keep on our books must be variable rate in some form or another. Either ARMs or balloon terms are necessary as a tool to enable us to manage interest rate risk. The typical community bank like our bank cannot book and maintain 15 and 30 year fixed rate loans due to the interest rate risk inherent in those loan types. Requiring higher risk rating of those loans thus requires more capital, increasing the cost of the credit and reducing the availability of credit in our markets. Also, community banks like ours located in rural markets are able to make residential mortgage loans that do not quite fit the "conforming" mold due to matters such

as being situated on a larger than typical lot, say one to five acres; or not having streets with curbs and gutters; or not being located on or having access to paved roads. These situations are typical in rural markets, not atypical. I do not believe there is any evidence that loans of this nature represent greater risk than "conforming" loans. To the contrary I submit the defaults are less than the norm.

Fourth, home equity lending is one of the only remaining consumer lending functions that has not been pirated by the non-banks or shadow banking system. Our bank is actively involved in home equity lending. The punitive risk weights of up to 200 percent will both increase the cost of credit to the consumer and have the affect of restricting the availability of consumer credit. Presumably the risk weights in excess of 100 percent are intended to have the bank hold additional capital as a buffer against the risks associated with the respective loan(s). This type of capital buffer is not necessary in that the ALLL analysis includes risk analysis of all risk factors including LTVs; the impact of credit scores; delinquencies; and local market conditions. The additional risk weights represent unnecessary and redundant sources of capital allocation that will drive up the cost of credit to the consumer and restrict the availability of consumer credit. Also, the effects of Basel III on community banks will drive higher capital levels, which are already at historical high levels of capital, and will reduce return on capital and make raising capital, which is already difficult, next to impossible.

Fifth, increasing risk weights on high volatility commercial real estate loans is another redundant means of raising capital requirements in community banks. The risks associated with this type of loan must be assessed in the ALLL analysis and any increased level of required reserves provides the capital buffer for the risks inherent in these loans.

Sixth, increasing risk weights on delinquent loans is yet another redundant means of raising capital requirements. Delinquent loans must be considered in the ALLL analysis. Community banks are already regulated highly in this regard and criticized severely if not adequately recognizing the need for capital to mitigate the risks of delinquency in the ALLL analysis. If a community bank is deficient in this area the regulators will at minimum make it a Matter Requiring Attention (MRA) or place the bank under a Cease and Desist Order and possibly assess civil money penalties. This redundancy in capital calculation is both unfair and unnecessary for community banks.

Seventh, the exclusion from capital of certain Deferred Tax Assets (DTAs) could restrict lending in our bank by approximately $30 Million or just under 10 percent of our total assets. We are located in northwest Colorado with many branch offices in rural markets. A loss of $30 Million in potential loans is significant in these rural areas.

Eighth, the scope and granularity of the proposed rules will require the collection and reporting of new information in order to calculate the risk weights of assets for our institution. We likely will need to acquire new software and install new systems in order to comply with the very complex calculations. As an alternative, we may outsource the project to a third party. Either way, the proposed rules will cause our institution to incur new costs and regulatory burden. We believe the loan related matters are already appropriately accounted for in the ALLL analysis.

The results of the proposed Basel III rules are needed for very large and foreign institutions that have historically been allowed to operate with less capital than community banks. Imposing these very onerous requirements on community banks is not reasonable, especially given that community banks are at historically high levels of capitalization and are coming out of the worst economy since the 1930s. It is widely recognized that the impact for most community banks as a result of Basel III, if implemented, will likely be minimal. Why put the community banks through the rigorous and expensive exercise of the analysis and calculation required to measure all the complex risk ratings and the continuing monitoring that will be required if that is expected to be the case? It appears to us that the current capital requirements remain appropriate for community banks such as FNBR.

The tough banking regulatory environment and the Congress have been taking away income opportunities from community banks, by clamping down on traditional fee income opportunities and restricting lending, while demanding more and more capital at a time when banks are struggling with a poor economy and making below-normal profits. The inability to generate appropriate returns on capital is making raising capital at most community banks difficult if not impossible. Now is not the time to increase capital requirements and regulatory burden on community banks by imposing the requirements of Basel III on community banks – banks that did not cause the financial shocks that resulted in the "Great Recession".

Sincerely,

Peter Y. Waller
Chairman, President and CEO
First National Bank of the Rockies and
FNBR Holding Corporation

cc/
The Honorable Michael Bennet
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The Honorable Mark Udall
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The Honorable Scott Tipton
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