

# NEW WEST BANK



August 30, 2012

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

Office of the Comptroller of the Currency  
250 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, N.W.  
Washington, D.C. 20429

## **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 (together the "Agencies").

New West Bank is a ten-year old community bank in Northern Colorado with \$167 million in total assets. We currently have two locations, one in Greeley, CO (approx. population of 90K) and a second in Eaton, CO (population of 2,750), and we are primarily a small business and small ag bank in these respective communities. Unlike many of the mega-banks in the U.S., and unlike several de novo banks in our area, New West Bank has grown our business and our customer base very responsibly during the last ten years – and we have recorded a profit every year during this most severe economic recession! Furthermore, we have helped our customers to survive the recession by providing not only the needed capital, but also good financial counsel and advice. ***In our opinion, this is what community banking is all about!***

With that background, we are rather disappointed in the Agencies' Basel III proposals as they appear to be overly burdensome and punitive to community banks like New West Bank.

**Comment #1:** Our first request would be to ask that Basel III simply not apply to banks less than \$10 billion in assets (or even a lesser threshold of perhaps \$5 billion), and allow the current Capital Adequacy and Prompt Corrective Action regulatory rules apply to community banks. By imposing Basel III to banks of all sizes, it will be overly burdensome to banks like us in terms of additional staff costs, retraining, and reprogramming of our IT data systems in order to calculate the new calculation for Risk-Weighted Assets. I am sure (or at least hopeful) that it was not the intent of the Agencies to impose such a burden on a \$167 Million community bank vs. a \$167 Billion bank.

**Comment #2:** The proposal to include AOCI (accumulated other comprehensive income) as a component of Tier 1 Capital would have a major negative impact, with that falling disproportionately on community banks like ours. We have a large percentage of our AFS bond portfolio in high quality U.S. Agency securities, which your Agencies prefer us to hold given their superior liquidity and quality. Should interest rates move up significantly in a short timeframe (and this volatility risk is increasing given the historically low rate environment we are currently experiencing), our capital ratios could fall dramatically. This proposal would result in severe volatility and inconsistency in our community bank capital ratios.

Second, the AOCI inclusion for AFS securities applies the mark-to-market treatment to only one set of assets on our balance sheet (which appears to contradict basic accounting principles of consistency). Mark-to-market reporting is already provided in each quarterly Call Report, allowing the Agencies to properly monitor our capital ratios today.

Third, this proposal would have the unintended consequence of weakening a community bank's asset-liability management by adding a potential capital penalty for holding an AFS securities portfolio. Our AFS bond portfolio is one of our bank's most important sources of a.) liquidity, and b.) an effective balancing tool for our ALCO in reducing overall asset sensitivity.

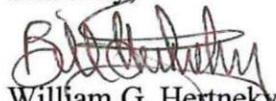
It is our recommendation that the Agencies exclude any AOCI adjustments from the regulatory capital calculations, and continue to include AOCI reporting in the Call Report to reflect ongoing gains/losses in the AFS portfolio.

**Comment #3:** The proposal includes a provision for banks to hold a Capital Conservation Buffer of 2.5% in addition to the established minimum risk-based capital requirements. This is confusing, and contradictory to the existing standards in the PCA "well-capitalized" framework.

We would recommend that the Capital Conservation Buffer be adjusted to 2.0% to avoid confusion, and better align the new Buffer with the buffers that already exist between 'adequately capitalized' and 'well-capitalized' status under the PCA framework. In the interest of clarity, flexibility and simplicity, the Agencies may even want to consider eliminating the Capital Conservation Buffer altogether and apply existing enforcement authority as circumstances warrant.

Thank you for the opportunity to comment on this Basel III proposal. If you have any questions of me, please do not hesitate to call or email.

Sincerely,



William G. Hertneky  
President and CEO  
New West Bank