TeamCapitalBank

October 18, 2012

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

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

Office of Comptroller of the Currency
250 E. Street SW
Mail Stop 2-3
Washington, DC 20212

In November 2005, Team Capital Bank opened for business in Flemington, Hunterdon County, New Jersey. This was the result of years of work to reach the vision of the founders of the bank. The founders of Team Capital Bank believed that there was an opportunity to provide banking products and services to both small to medium sized businesses and individuals who desired personal service that larger banks often do not provide. The bank was focused on hiring skilled bankers that lived and worked in the communities that the bank would do business. The bank also relied on regional board members to help attract business to the bank. The focus was on using local knowledge of its staff and board members to compete against larger banks. From its start in Flemington, the bank expanded into Bucks Lehigh and Northampton counties in Pennsylvania and in addition to Hunterdon County in New Jersey the bank expanded into Somerset, Essex and Warren Counties. In addition to its first equity capital raises the bank raised equity capital three additional times to provide capital to support growth.

At September 30, 2012, Team Capital Bank had 12 branches, 140 employees, $912 million in total assets, a loan portfolio of $521 million and deposits of $731 million. In July 2011, Team Capital Bank participated in the Small Business Lending Fund program and received $22.4 million in capital from the program. At June 30, 2012 the Small Business Lending Fund reported the lending results of the participants. Of the 32 banks that participated in Pennsylvania and New Jersey Team Capital Bank had the highest growth in qualifying small business loans and of the 328 banks that participated nationally Team Capital Bank ranked 38th. The Bank has been consistently profitable on a quarterly basis since the third quarter of 2009 and we believe we have maintained good relationships with our regulators and operate the bank in a

3001 Emrick Boulevard, Suite 320, Bethlehem, PA 18020

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conservative manner. The bank has created jobs and met the banking needs of many in the communities it serves.

While Team Capital Bank did not participate in the subprime mortgage business or any other of the products that caused the financial crisis, we have certainly participated in the aftermath. We have seen our FDIC assessments increase dramatically to help deal with the bank failures and while, due to our size, we have not had to deal with all of the regulatory changes, the changes that we have faced resulted in increased costs and significant time commitments and distract us from our focus on meeting the banking needs of the communities in which we live and work. Unlike larger banks, Team Capital Bank does not have the same resources to respond to these changes.

Now we are faced with sweeping changes in how capital adequacy is assessed. We are limiting our comments to three specific areas of the proposed changes. A general comment first is that the new rules are significantly more complex to calculate and understand. Is this level of complexity really going to result in stronger capital positions for community banks? Are our customers and shareholders going to be able to understand what these new ratios mean? We believe these rules are needed for larger and more complex banks and bank holding companies but for community banks, defined as banks under $10 billion the old rules should be adequate.

We have comments on three parts of the proposed new rules including the following:

1. **Risk weightings related to residential mortgage loans**

2. **Treatment of unrealized gains and losses on certain debt securities**

3. **Exclusion of trust preferred securities.**

Risk weightings residential mortgage loans

We believe that we underwrite residential mortgage and home equity loans and credit lines under prudent standards and have experienced very limited losses on these loan products. Our concerns relate to the risk weightings of home equity lines of credit and adjustable rate mortgage loans.

Home equity lines of credit allow customers to access the equity in their home for various needs. They can draw down funds as needed and have flexible repayment terms. Many of our customers use these loans to pay for college tuition or purchases of automobiles or home improvements as well as for emergencies. We encourage our customers that have equity in their homes to establish a home equity credit line so that should an emergency arise they will have access to liquidity. We believe that our home equity credit lines would be considered Type 2 mortgages under the proposed rules for two reasons. First, our home equity credit lines are typically tied to the prime rate of interest and float as prime changes. This would not comply with the two percentage points cap in any twelve month period and no more than six percentage points over the life of the exposure. We typically cap the interest rate at but do not qualify using principal and interest payments based on the maximum contractual exposure. We believe that most home equity lines of credit would fall under the Type 2 guidelines regardless even it was a first lien due to the repricing characteristics regardless of the loan to value ratio.

We believe that prudently underwritten home equity lines of credit should be considered a Type 1 mortgage regardless of the rate change structure as consumers are comfortable with managing these products and understand the interest rate risk associated with them. We believe that if all home equity loans were required to qualify at the highest rate of interest that we or any other community bank would not be extending any home equity credit lines to our customers. This would limit access to capital for many individuals or force them to other higher cost funding sources. One solution would be to reduce the rate change terms to comply with the restrictions and reduce the life cap rate. While this would help the bank continue to do home equity line lending and could result in more favorable capital weighting but it would significantly increase the interest rate risk associated with these lines and potentially reduce the profitability. Under the terms above we would be unlikely to participate in the home equity credit line business going forward. Offering fixed rate home equity loans with a defined repayment stream would address some of these issues but would limit the flexibility that customers now enjoy with a home equity line of credit.

The other issue related to home equity lines of credit is the requirement that a banking organization that holds both a first and junior lien on the same property to combine the exposures into one first-lien exposure for purposes of determining the loan-to-value and risk weight for the combined exposure. The banking organization could only categorize the combined exposure as a category one residential mortgage exposure if the terms and characteristics of both mortgages meet all of the criteria for category 1 residential mortgage exposure.

For example we have properly underwritten first mortgage to a customer who has complied with all the terms and conditions of the loan. This customer now desires a home equity line of credit to pay for college tuition for their children. Because of the floating rate nature of the home equity line not only would this loan be a Type 2 loan but the first mortgage would now become a Type 2. The answer for Team Capital Bank could end up asking our customer to go elsewhere for the home equity line of credit. This could jeopardize the entire banking relationship and require us to increase our capital against what is a lower loan.

We believe that the final rules should allow for home equity credit lines with floating rate to qualify as Type 1 mortgages based on loan to value and prudent underwriting that does not include the highest possible rate of interest. And second, we believe that first and second lien loans should not be included together to determine risk weighting.

A second area of concern related to residential mortgage loans relates to adjustable rate first lien residential mortgages. Because of the interest rate risk associated with fixed rate mortgages we typically sell these mortgages into the secondary market. We have certain loans that for noncredit reasons may not be salable in the secondary market. For those customers we offer 5 year or 7 year adjustable rate mortgages typically tied to libor with a repricing structure of 5/2/5. This means 5% reset in the first reset date, 2% annual change annually thereafter and a 5% life time cap. We use this structure as it conforms to current FNMA guidelines for adjustable rate mortgages.

Under this proposal this would become a Type 2 mortgage. We would be better off from a capital risk position to do the 30 year fixed rate mortgage and take on significant interest rate risk as opposed to reducing our interest rate risk but now taking on capital risk. We recommend that the guidelines are changed so that this type of structure, properly underwritten could qualify as a Type 1 mortgage.

Treatment of Unrealized Gains and Losses on Certain Debt Securities

Our second area of concern relates to treatment of unrealized gains and losses of certain debt securities in common equity tier 1 capital. When the risk based capital rules were first introduced, the regulatory authorities at that time, determined not to include these unrealized gains and losses in regulatory capital. That was the right decision at that time and is still the right decision now if for no other reason that two banks with the same portfolio one in held to maturity and one in available for sale could have significantly different capital ratios based totally on an accounting decision.

Team Capital Bank like many community banks has a portfolio that largely consists of US agency bonds, US agency mortgage backed securities and general obligation tax free municipal bonds. We use the portfolio to provide liquidity and manage our interest rate risk position. Currently our loan portfolio has short repricing characterizes so we maintain a longer duration investment portfolio. This structure reduces our exposure to changes in net interest income due to shifts in interest rates. Having the portfolio in available for sale also allows us to sell these securities should our interest rate risk position changes. We understand that the longer portfolio creates the risk of unrealized losses should interest rate rise but we manage our entire balance sheet and our economic value of portfolio equity risk limits addresses this issue. Carving out one portion of the asset side of balance sheet to mark to market without allowing the bank to mark to market of a similar sized portion of the liability side will not truly capture true capital position of the bank.

Because most community banks hold large balances of US Agency related bonds with very limited credit risk the change in the value of the bonds is not important because the chance of loss is very small. If interest rates increase and the bonds now have unrealized losses, the lower yield on the bonds will result in lower earnings levels which will show up in reduced growth in equity capital going forward. This will influence future asset growth and impact the capital ratios going forward. If the market losses are other than temporary then the loss is recorded through the income statement and capital is impacted.

If these rules were to be enacted we would be faced with a difficult question. Do we shift our portfolio into held to maturity instead of available for sale? This would solve the capital exposure but create liquidity and interest rate risk as we would be unable to use the portfolio to properly manage liquidity and interest rate risk. This would be unacceptable to us as we would have significantly less flexibility going forward.

We believe that two banks with the same portfolio consisting primarily of US Agency bonds and municipal bonds the one places their portfolio into held to maturity has more interest rate and liquidity risk than the one that keeps the portfolio in available for sale. So that creating liquidity and interest rate to avoid capital risk seems to be a bad trade off.

Managing a balance sheet is already complicated enough. We believe that the rules should not needlessly create a conflict between capital, liquidity and interest rate risk management. The new capital rules should exclude unrealized gains and losses on debt securities from regulatory capital.

Exclusion of trust preferred securities.

Under section 171 of the Dodd-Frank Act, depository institution holding companies with total consolidated assets greater than or equal to $15 billion as of December 31, 2009 would be required to phase out their non-qualifying capital instruments over time. Since this is the law of the land it is unlikely to change. Applying these same restrictions to banks below $15 billion is not necessary. This would limit community banks access to capital. We believe that there is a place in the regulatory capital structure for trust preferred securities. Larger banks with assets over $15 billion have much better access to the common equity market than community banks. Trust preferred securities can play an important capital rule for community banks when access to common equity is either not available or very costly. Rather than eliminating this form of capital additional restrictions may be warranted but do not eliminate it. Community banks play a critical role in meeting the lending needs of many small businesses. Allowing them to use trust preferred securities to meet some of their capital needs is beneficial to community banks, their customers and the markets that they do business.

Sincerely

Howard N. Hall
Executive Vice President and Chief Financial Officer
Team Capital Bank