EideBailly

CPAs & BUSINESS ADVISORS

October 22, 2012

Via Email to regs.comments@occ.treas.gov

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, DC 20219

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

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

Re: Regulatory Capital Rules:

Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements

Advanced Approaches Risk-Based Capital Rules; Market Risk Capital Rule

Eide Bailly LLP appreciates the opportunity to comment on the proposed notices of proposed rulemakings (NPRs) noted above. We have reviewed all three proposed NPRs and this letter will focus on just certain provisions of the first two related to Basel III and the standardized approach for risk-weighted assets.

Eide Bailly is a full service public accounting firm that works with financial institution clients in 17 states with assets ranging from $10 million to more than $7 billion.

We have had numerous discussions with many of our financial institution clients on these proposed NPRs and we believe that submitting this comment letter will assist the rule making process in order to improve the overall safety and soundness of financial institution industry. We wish to comment on the following topics:

1. Unrealized gains and losses on available for sale securities
2. Residential mortgage risk weighting

3. Trust preferred capital treatment
4. Sub Chapter S financial institutions

Unrealized Gains and Losses on Available for Sale Securities

According to the proposed NPRs, unrealized gains and losses on available for sale securities will flow through Tier 1 Common Equity. We believe that this will add a significant amount of volatility in the capital ratios due primarily to potential changes in interest rates. From this volatility, we believe that financial institutions will look to manage their capital structure by utilizing more held to maturity securities and moving to securities with shorter durations. Utilizing held to maturity securities will affect the overall financial institutions liquidity and will make it more difficult for the financial institution to manage interest rate sensitivity. Moving to securities with shorter durations will have a significant impact on the security yields and will reduce the need for longer durations security products like municipal debt. We have a number of financial institution clients that are in small communities that participate in their local municipal bonds.

We believe that unrealized gains and losses on available for sale securities should not be included in Tier 1 Common Equity. Accounting principles generally accepted in the United States already has a mechanism to recognize gains and losses on available for sale securities that are considered other than temporary. We believe that this requirement could be very detrimental to financial institutions during a rising interest rate environment.

Residential Mortgage Risk Weighting

The proposed NPRs include significant changes to risk weighting to residential mortgage loans as well as mortgage servicing rights. The residential mortgage market has been slow to recover since the downturn in 2007. From our discussions with financial institutions, we believe that these additional capital burdens will force financial institutions to reduce their lending in residential mortgages and retaining servicing associated with mortgage loans.

We believe that this increase in cost of capital associated with residential mortgage lending will lead to higher pricing for originations and reductions in values of mortgage servicing rights. All of these factors point to the potential that borrowers will have less access to funding for residential mortgages as well a potential increase in costs to borrowers.

Trust Preferred Capital Treatment

Under Dodd-Frank, financial institutions under $15 Billion in assets can count trust preferred securities as Tier 1 capital. The proposed NPRs have reduced the phase out period for smaller institutions from 25 years to 10 years beginning in 2013.

Smaller financial institutions have limited access to capital markets for raising additional capital. Trust preferred capital has been an alternative for smaller financial institutions to obtain Tier 1 capital. We believe that the statutory requirements of Dodd-Frank should be followed rather than having a decrease in the phase out period as proposed in the NPRs.

Sub Chapter S Financial Institutions

Under the proposed NPRs, Sub Chapter S financial institutions will have potential limitations for capital distributions based on compliance with certain capital buffers. Sub Chapter S financial institutions are dependent on being able to make distributions in order to pay for individual income taxes. These limitations may force Sub Chapter S financial institutions to terminate their election to a C Corporation or require the institutions to carry significant excess capital which would reduce income and make the institution unattractive to potential investors.

Conclusion

Our discussions with our financial institutions have been clear in that they all want to stay under the current requirements rather than the proposed NPRs. The financial institution industry is feeling burdened by increased government regulation and these proposed NPRs will only create additional uncertainty for financial institutions. We urge the regulators to reconsider these NPRs or look to have a minimum asset size for these requirements.

Sincerely,

Eide Bailly LLP

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