MOUNTAIN
WEST BANK, N.A.

October 22, 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 (collectively the "banking agencies").

Our bank was established in 1991 in Helena, Montana. Since inception we have grown to over \$630 million in assets and expanded to 8 cities across western Montana. We have become one of the pivotal community banks in western Montana that has provided many essential commercial and construction loans to help our local economies grow and prosper to provide livings for hard working Montanans. Over the past 2 decades, through many economic bubbles and crashes, we have grown our Total Risk Based Capital ratio to 16.44%, Tier I Risk Based Capital ratio to 15.17%, and Tier I Leverage Capital ratio to 11.38%.

We, as a community bank, believe that a strengthened capital regulation in the financial sector is deeply needed and that Basel III is a great step in the right direction. Constructing and developing the proposed capital amendments based on time extensive studies and public perception must have been very burdensome. We would like to pass along our appreciation for the hard work.

There are a few areas that concern us as community bankers on the proposed Basel III capital requirements. The first being the requirement that gains and losses on AFS securities must flow through to regulatory Tier I capital. With the current rate environment being at historic lows for an ever increasing period, there is significant risk that community banks will realize dramatic swings in their AFS portfolios. If and when rates move upward, the unrealized losses on these portfolios will effectively reduce regulatory capital ratios. This will happen while banks' equity will have no change. This proposal will introduce a significant amount of cyclicality and volatility into the system.

Community banks could be forced to reduce the size of their balance sheets as the economy begins to improve causing rates to begin to rise, from the pressure of this proposal. This would create a negative impact on lending as community banks will be forced to reduce availability of credit to concentrate on maintaining regulatory capital ratios. This will also restrict any future economic recovery.

Our second disagreement with the proposal is the increased risk weighting for residential mortgage loans. The risk weighting of residential mortgages are higher in many cases than other types of loans that would be considered much riskier. This proposal will have drastic ramifications for community banks as loan production for these loan types will definitely reduce.

In addition, the added administrative work to risk weight each individual loan would require added full time staff for our institution, along with other community banks that service residential mortgages. Not only would banks need to assign a risk weighting to a new loan, they would have to continually reevaluate the risk weightings based on changes in evolving collateral values, past due status, and other risk factors.

We question the ability to truly examine a bank's performance in properly assigning risk weightings under this rule due to the amount of people and time it will take to review the data.

Another problem with the proposal is that Trust Preferred Securities (TPS) is specifically allowed by Dodd-Frank. Dodd-Frank allows entities with under $15 Billion in assets count TPS as Tier I capital. This sensible amendment was a major legislative victory for community banks, and they use this regulator-approved hybrid capital vehicle. The proposal appears to directly contradict the will of Congress.

While economic conditions have impacted earning and ROE potential, many of the challenges community banks face in raising additional capital are a direct result of regulatory and legislative actions. Diminished expectations for earnings result in more difficulty attracting additional capital for community banks, dilutes existing shareholders and makes any capital acquisition significantly more costly. The proposal should follow federal law and allow those entities with under $15 Billion in assets to continue with TPS.

With rules regarding high volume commercial real estate, we feel this proposal is good from the standpoint of recognizing the different risk profiles that exist in these types of loans. It will tighten up the underwriting and structuring of these transactions between banks. Our biggest concern with this proposal is the administrative concern of assigning a risk rating to every single loan based on all of the criteria and the exceptions provided in the rule. This will require many community banks to add full time staff to complete the added work load.

We also are concerned with the proposal to increase risk weights on delinquent loans. By increasing the amount of capital we hold based on past due loans, in addition with provision for past due loans, would mean banks would be penalized twice. We strongly believe the risk related to problem loans should continue to be managed through the loan loss reserve guidance and not by adding additional capital requirements.

Lastly, the proposed Capital Conservation Buffer that begins to take effect in 2016 and is fully phased in by 2019 is unnecessary. This buffer grows on top of the adequately capitalized minimums for the three capital measures with risk assets in the denominator. The buffer doesn't break through the well capitalized minimum for the three risk based capital ratios until 2019 and then only by half percent. Given that institutions generally strive to stay above well capitalized minimums, we recommend elimination of this buffer and grant regulator agencies the authority to impose restrictions on dividends, discretionary management bonuses, and actions aimed at retiring stock if an institution falls below well capitalized minimums. In fact, such restrictions are already being imposed by field examination staff in individual situations when merited.

We believe that the proposed capital requirements will cause more harm than good for all community banks and ask for revisions. Our nation feeds off our community banks and without reconsideration of this proposal community banks will lack the ability to serve our local economies.

Thank you for your consideration.

Sincerely,

Rick Hart

CEO/President
Mountain West Financial Corp.
and Mountain West Bank, N.A.

Richard Morgan

CFO/EVP
Mountain West Financial Corp.
and Mountain West Bank, N.A