BANK OF COMMERCE
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October 3, 2012

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. As you already know Basel III was designed to apply to the largest, internationally active, banks and not community banks like ours. Our community bank sits in the heart of the West located in south central Wyoming. Community banks like ours did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. Our bank operates on close relationships with our customers and we work with these customers on a long-term basis. My family in fact has been providing banking services to our customers on the principals of relationship banking for over 110 years in our community. We utilize a common sense approach to managing the risks we take, and have been very successful while maintaining the high degree of safety to our customer's deposits. The fact is I agree that tougher capital standards need to be placed exclusively on the largest banks that pose such a great risk to the traditional banking model. These standards imposed upon small community banks with proven track records of safe and sound banking practices are overbearing and far too complicated for us to sustain business profitably.

Inclusion of accumulated other comprehensive income (AOCI) in capital for community banks like ours will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for most community banks represents unrealized gains and losses on investment securities held available-for-sale. Because

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions, Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. Recently, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. As interest rates rise, fair values will fall causing the balance of AOCI to decline and become negative. This decline will have a direct, immediate impact on common equity, tier 1, and total capital or our bank and will substantially impact the capital balances of our bank. For instance, if interest rates increased by 300 basis points, my bank's bond portfolio would show a paper loss of $3,400,000. This would mean that my bank's tier one ratio would drop by 2%.
Large financial institutions have the ability to raise capital to meet these types of changes, however small community banks that have been doing things right for many years simply do not have access to that type of capital. Community banks should continue to exclude AOCI in their capital calculations.

In closing, there are many other parts of this Basel III regulation that could potentially harm the community banking model. I truly hope that you carefully consider the potential harm to the dual banking system that could happen if Basel III is implemented as proposed.

Your jobs are not easy, however I urge you not to penalize the heart of community banking with these unwarranted regulations.

Sincerely,

Copper W. France
President
Bank of Commerce
Rawlins, Wyoming