Alex Sheshunoff

March 26, 2007

Subject: **Basel IA Notice of Proposed Rulemaking**

Ladies and Gentleman,

I am writing in response to your agencies' request for comment on the Notice of Proposed Rulemaking for Risk-Based Capital Standards published on December 26, 2006 ("Basel IA").

Background

I have spent my career working with banks that fit the definition of "general banks" under the new Basel rules. These banks play a critically important role in financing millions of small businesses, provide strong competition to larger institutions and often are major source of innovation.

These general banks are understandably concerned that their larger counterparts may secure unfair advantages as the larger banks adopt the Basel II rules and operate separately from the rest of the U.S. banking industry.

Basil IA: A Good Approach to Capital Allocation Based on Credit Risk Exposure

I am very encouraged to see that the agencies have spent such a large amount of time and effort in formulating the Basel IA final rule. Basel IA presents a good workable approach for general banks to more efficiently allocate capital based on credit risk exposure.

A number of community bank leaders have expressed concerns that the additional regulatory reporting burden associated with adopting Basel IA might be too costly and burdensome for some smaller size banks. I would urge the agencies to make every effort to streamline the reporting process and minimize unnecessary burdens or costs associated with adopting the Basel IA capital standards.

Other Risk Exposure

Throughout the course of the Basel IA rulemaking process, the agencies have focused primarily on credit risk exposure. In addition, the agencies have sought comment on applying the new capital requirements to cover other risk exposures as well.

518 Alto Street, Santa Fe, New Mexico 87501
Phone: 505-986-9947 Email: alex@alexsheshunoff.com

The principle is very straightforward: if an AA-rated guarantor of a loan (which would result in a 20% risk-weighted asset) is willing to contractually insulate a Basel IA bank from another type of risk exposure, then the risk-mitigating benefit of such insurance should be recognized as well. **Contractually Established Liquidation Values for Acquired Core Deposit Bases** should clearly be in this category and be included in capital.

Contractually Established Liquidation Values for Acquired Core Deposit Bases

I believe that it is essential that the agencies recognize contractually established liquidation values for acquired deposit bases in determining the regulatory capital status of core deposit intangible assets.

Currently, core deposit intangibles are fully deducted from core capital, and therefore do not even qualify for risk-weighting. This treatment applies only to core deposit intangible assets and not other identifiable intangible assets common to banking.

Of major importance, neither purchased mortgage servicing intangibles nor purchased credit card intangibles are treated as full deductions. It is generally understood that these identifiable intangibles are typically owned only by Basel II-type institutions, not community banks.

As I understand, core deposit intangibles are the only identifiable intangible asset whose liquidation value has been guaranteed contractually by investment grade-rated third parties.

Conclusions

Given the agencies' recognition, for the first time, of the improved capital status of assets guaranteed contractually by such organizations, this practice should be extended to core deposit intangible assets with similar protection and allow for their inclusion in core capital.

Sincerely,

Alex Sheshunoff

518 Alto Street, Santa Fe, New Mexico 87501
Phone: 505-986-9947 Email: alex@alexsheshunoff.com