



DEL NORTE BANK

TRUE LOCAL BANK

August 29, 2012

PERSONAL AND CONFIDENTIAL

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

regs.comments@federalreserve.gov

**Re: Docket No. R-1430
RIN No. 7100-AD87**

Dear Secretary Johnson:

Section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) and the proposed Basel III capital requirements unfairly discriminate against small savings and loan holding companies by subjecting them to consolidated capital requirements that are not applicable to similarly situated small bank holding companies. The applicable provisions of Dodd-Frank and the Basel III proposal should be amended to make the Small Bank Holding Company Policy Statement applicable to small savings and loan holding companies (S&L holding companies with less than \$500 million in consolidated assets) or a Small Savings and Loan Holding Company Policy Statement should be developed that affords small savings and loan holding companies the same protections and benefits as are granted to small bank holding companies.

Del Norte Bank is a state-chartered savings and loan association headquartered in Del Norte, Colorado. Del Norte Bank is owned by Del Norte Mutual Holding Company, a mutual holding company. As of June 30th, our organization had approximately \$48 million in total assets. Del Norte Bank was operated as Del Norte Federal Bank, a federally-chartered mutual savings and loan, prior to June, 2011.

In 2010, Del Norte Federal Bank reorganized into a mutual holding company structure. The Bank has since converted to a state-chartered savings and loan association, but continues to be 100% owned by a non-stock, mutual holding company. The members of the mutual holding company are the depositors and borrowers of Del Norte Bank. There are no minority shareholders that own the Bank’s common stock.

Del Norte Bank was regulated by the Office of Thrift Supervision at the time of its reorganization into a mutual holding company structure. At that time, the OTS approved the reorganization, along with the mutual holding company borrowing approximately \$100,000 from a correspondent bank and contributing the borrowing to Del Norte Federal Bank to serve as regulatory capital. This holding company leveraging technique is a

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common technique for community banks, especially those with less than \$500 million in consolidated assets. However, according to the OTS, this is the first time the transaction had been done for a mutual holding company. The holding company debt is still outstanding, with the proceeds of the debt still serving as Bank regulatory capital. The debt is serviced through the mutual holding company's receipt of Bank dividends. This capital raising technique provides a significant benefit for non-stock, mutual holding companies, as true mutuals have no way to sell stock or otherwise raise capital without converting from their existing mutual form of ownership.

The Small Bank Holding Company Policy Statement promotes a small bank holding company's ability to engage in this type of capital raising transaction because the Small Bank Holding Company Policy Statement makes clear that small bank holding companies are not subject to consolidated capital requirements. According to the Basel III Notice of Proposed Rulemaking, the Small Bank Holding Company Policy Statement will remain in effect and community banks with less than \$500 million in consolidated assets will continue to enjoy freedom from consolidated capital requirements. However, according to Dodd-Frank and the Basel III Notice of Proposed Rulemaking, small savings and loan holding companies are not afforded the same protections or benefits. Instead, all savings and loan holding companies, regardless of size, will be subject to consolidated capital requirements. This disparity among treatment of similarly situated institutions is wrong, results in a significant competitive disadvantage for the savings and loan charter and should be changed.

In summary, Dodd-Frank and the Basel III rules and regulations should include an exception to consolidated capital requirements for small savings and loan holding companies. This will provide these holding companies an equal opportunity with small bank holding companies, and will end the disparate impact that will occur against small savings and loan holding companies if the proposed regulations are not changed.

Sincerely,



Michael Hurst
President, Del Norte Bank