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September 12, 2012

Office of the Comptroller of the Currency
250 E. St. SW.
Mail Stop 2-3
Washington DC 20219

Re: OCC Docket ID OCC-2012-0009: Regulatory Capital Rules: Standardized Approach for Risk Weighted Assets; Market Discipline and Disclosure Requirements

To whom it may concern:
Thank you for the opportunity to comment on the Notice of Proposed Rulemaking (NPR) concerning the changes in the risk-weighting of the regulatory capital rules. As is outlined in the NPR, this rule would apply to all "banking organizations that are currently subject to minimum capital requirements." Being such an institution, First Hope Bank will be greatly impacted by this proposed rule.

First Hope Bank, OCC Bank Number 10118, is a six branch institution with offices located in northwestern New Jersey. As of June 30, 2012, the Bank had $409.9 million in assets. Those assets consist primarily of an investment portfolio of $73.8 million and a loan portfolio, net of the allowance for loan and lease loss, of $291.8 million. These assets are primarily funded by a deposit base of $344.1 million, generated from the local community. In addition to providing traditional banking services to the community, the Bank also has a Trust Department providing investment advice and estate services. Furthermore, the Bank operates a wholly-owned mortgage subsidiary providing mortgages throughout New Jersey and several other states. The final subsidiary is an investment subsidiary, First Hope Invescorp, which owns a majority of the investments of the Bank. First Hope Bank is a wholly-owned subsidiary of First Hope Bancorp.

The proposed framework for determining risk weightings of assets, as outlined in this NPR, would greatly impact the banking industry. The changes proposed add unnecessary complexity to an already complicated process. The complexity would be warranted, if it provided a more accurate measurement of the risk of an institution, but these changes do not accomplish that goal. Since this NPR does not make changes to more accurately reflect the risk of a bank, it should not be enacted.

The primary area of unnecessary complexity in this NPR is the inclusion of Loan to Value (LTV) in the calculation of risk weighted assets. Superficially, the inclusion of LTV should be a good measure of the risk of a bank. However, in practice, it is a number that means little, unless it is consistently updated. The past five years have reinforced to bankers that the value of an asset changes over time, and not always in a positive direction. With that understanding, LTV, with

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the value of the collateral in the denominator, also changes over time, and not always downward, whether the loan amortizes or not. One cannot even assume changes in value will be similar across geographic areas or significant stretches of time. Therefore, for LTV to be an accurate measure of risk, regulators would have to impose regular updates to every piece of collateral. That imposition would be burdensome to the borrower and the bank in time and money, causing certain deals to be eliminated. First Hope Bank estimates that based on our current book of loans requiring an appraisal for every loan every year would cost more than $1 million per year, excluding the addition of one job to manage the process. This amounts to roughly 60% of our after-tax net income for 2011. Additionally, by allowing LTV values to change over time and influence regulatory capital ratios, this will cause further volatility in a bank's ability to lend. Assets will be able to be added during periods of economic expansion as asset values increase, while the opposite will also be true, causing a procyclical effect on lending.

The inclusion of LTV will also dramatically increase the importance of appraisals and valuations of collateral. Appraisers will face increased pressure to have their numbers come within certain ranges. These ranges will change from simply making the loan work to have it achieve the specific LTV levels outlined in the NPR. Despite changes to increase the independence of appraisers, this will impact them directly and influence the value determined by an appraisal, further undermining the addition of LTV as a means to assess the risk of a bank.

In addition to concerns with the proposed LTV guidelines, the separation between a category one and a category two residential mortgage deserves review and change. The changes outlined in the NPR would dramatically increase the cost to most second mortgage borrowers, as banks would need additional income to justify the capital required by the risk weightings in the NPR. Borrowers with a combined LTV on their first and second mortgages below 60% would be particularly impacted by the higher risk weightings. These borrowers should be considered relatively low risk, and therefore not penalized with a higher rate or fee because of the risk weighting.

The proposed definition of a category one loan also impacts the interest rate risk management of the bank. Home Equity Lines of Credit (HELOC) are often favored by banks as a means to reduce interest rate risk, since they are often floating-rate assets. By charging a higher capital allocation to HELOC, this NPR is reducing the effectiveness of this traditional method of hedging the interest rate risk present on the balance sheet. By implementing a yearly and lifetime cap on the amount loans may reprice, banks will be compelled to seek other methods to hedge interest rate risk, primarily through the use of derivatives. Community banks have to date not regularly used derivatives for interest rate risk management and instead relied more on balance sheet management, through a mixture of fixed and floating rate assets and liabilities. Implementing this aspect of the NPR is similar to using a sledgehammer, when a scalpel is better suited. Should regulators be interested in having banks consider the impact of higher rates on the borrower during the underwriting process, implement this idea through loan underwriting guidance, as opposed to regulatory capital ratio determination.

Throughout this NPR there are numerous instances where certain assets are given a risk weighting above 100%. This is effectively a penalty for owning certain assets. This penalty should be removed, so that no risk weighting is above 100%. It is beyond reasonable to allocate decrease the volatility of capital ratios significantly for most banks. Even a framework similar to the one used to assign risk weightings to various investments would be preferable.

In order to properly assess the impact of this NPR, First Hope Bank re-calculated its regulatory capital ratios for every quarter from the first quarter of 2006, adding AOCI to the definition of capital. This analysis showed that the Bank's regulatory capital ratios would have changed anywhere from an increase of 25 basis points to a decrease of 47 basis points and multiple values in between, depending on the quarter. In addition to the significant impact of just imposing this rule, the NPR also adds volatility from quarter to quarter, which was borne out by the analysis. When comparing regulatory capital ratios from one quarter to the next and isolating the impact made just from AOCI, this Bank would have experienced shifts as violent as an increase of 47 basis points and a decrease of 49 basis points quarter over quarter. The legal lending limit will also be changed, as discussed above. During the most recent call report, First Hope Bank reported a legal lending limit of $5.939 million. This NPR would cause our current limit to be raised by $110,000, but in other interest rate environments, the Bank would experience a decrease in the legal lending limit of $205,000. As was expressed with the regulatory capital ratios, there would also be volatility in these numbers from month to month.

This comment letter will be submitted electronically to the OCC and the Federal Reserve. Additional copies of this letter will be sent to the individuals identified at the end of this letter. If you have any questions concerning the statement above, please reach out to Lewis R Beatty at either lbeatty@firsthope.com or 908-459-6012. Thank you again for the ability to comment on this NPR.

Respectfully,

LRB

Lewis R Beatty
Director
Senior Vice President
Chief Financial Officer and Cashier

Cc: Hon. Frank R Lautenberg, United States Senator from New Jersey
Hon. Robert Menendez, United States Senator from New Jersey
Hon. Scott Garrett, United States Representative from New Jersey's 5th District
John McWeeney, President, New Jersey Bankers Association
Hugh Carney, Senior Counsel, American Bankers Association