October 9, 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[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.

I work for a family owned 57 million dollar C corp. community bank located in two markets, currently capitalized with tier one capital to total assets at 8.70%. The Bank has always sought to maintain a well capitalized level, while also being conscious of return on capital. We have no trust preferred debt. Basel III would place an enormous burden on our staff and board to simply comply with the calculations involved to determine whether we are maintaining adequate levels of capital. We would be required to add additional systems to track capital changes that were caused by interest rate movements and loan originations. If the simple reason for Basel III is more capital, then I would suggest it much easier raise the current tier one capital requirements to levels thought adequate than to introduce complicated formulas that lend themselves to gaming the system.

To be specific as to how Basel III will affect my bank, I present the following couple examples. First, as a community bank we have many consumer 1-4 family residential home loans that over the years have been unable to be placed in the secondary market. One prime example is a balloon loan that was originated at 80% LTV that needs an 11% second mortgage. Placing the second mortgage on the books could potentially take these loans to a 200% risk weight, where if we did the second as an unsecured loan it would be risk weighted lower. It seems

[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.*

counterproductive for the regulatory agencies to encourage unsafe unsound practices by penalizing secured home loans.

My second example is our AFS bond portfolio. Our stated purpose of this portfolio is to maintain liquidity. We purchase very simple municipal and agency bonds that are spaced out over a fairly short duration. In our current portfolio we could have a shock to our current capital levels by 10% with only a 300 bp move up in rates. Adding this level of uncertainty to our capital plan would be devastating to a bank that needs to be able to move funds through the holding company in order to service debt.

I appreciate your consideration to these simple examples and look forward to Basel 4.