THE BANK
OLDHAM COUNTY

P.O. Box 500 • LaGrange, KY 40031
502/222-2100

October 4, 2012

Robert E. Feldman
Executive Secretary
Attention: comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

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

Re: Basel III Capital Proposals (RIN 3064-AD95 and RIN 3064-AD96)

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

I am the CEO of a $140 million community bank located in LaGrange, Kentucky. Our bank was formed in 1993 to mark the return of community banking to Oldham County. Previously, out-of-state banks had "cornered the banking market" through acquisition of our community banks. Names changed, account numbers changed and, unfortunately, faces changed too. In 1992, a group of local community leaders, business persons, and professionals joined forces and began planning the charter of a new community bank for Oldham County. In September of the following year, THE BANK - Oldham County opened its doors.

I would like to comment on the proposed treatment of including unrealized gains/losses on available-for-sale debt and equity securities in Common Equity Tier 1. I am opposed to this particular proposal. The inclusion of unrealized gains/losses in the calculation of Tier 1 Common Equity RBC for our bank significantly reduces our current ratio from 24.39% to 16.39%. This assumes interest rates go up by 300 basis points on a $70 million portfolio with an average life of 1.6 years resulting in a net loss of approximately $4 million. The current gains in our investment portfolio of roughly $1.4 million will be quickly erased when interest rates rise from the historically low level that currently exists. This proposal will create volatility in our capital ratios and can only be resolved by reclassifying our investment portfolio from AFS to HTM or by investing in very short term issues that negatively impact our earnings. Our bank, like most small community banks, rarely sells securities and depends upon them to primarily provide liquidity when necessary. When rates begin to rise and market valuations decline, the effect on our investment portfolio is that it behaves more like it is being held to maturity due to the unwillingness to absorb losses to access short term liquidity needs. In this rate environment, there is an abundance of liquidity and this will also be negatively impacted when rates begin to rise. This proposal penalizes community banks for classifying our securities as AFS to provide flexibility in managing our liquidity needs while dealing with the consequences of trying to control unrealized gains or losses without the intent to actually incur them.

After analyzing the impact of all of these proposed changes, our various ratios are forecasted to decrease as follows:

Category	Current Standard	Proposed Standard with rates up 300 b.p.
CET 1/RBC	24.39%	16.39%
Tier 1 RBC	24.39%	16.39%
Total RBC	25.64%	17.64%

While we maintain a well-capitalized position under the new proposal, the change is significant and creates volatility in our capital ratios. A portion of our strategic goal during this recession was to remain well capitalized and maintain ample liquidity. It is very difficult for a small community bank to access capital if needed. We are a privately held bank with less than 200 shareholders. As such, our annual stock appraisal is discounted because we are not publicly traded. This proposal could constrain growth opportunities without us having access to capital markets.

I am also very concerned about the establishment of risk weight categories for Category 1 Residential Mortgage exposure. Due to the interest rate risk exposure associated with loans that qualify for this category, the majority of our Residential Mortgage exposure falls into the Category 2 loan exposures. The risk weight adjustment for our bank is a shift of roughly $7.5 million from the 50% category to the proposed 100% risk category based upon loan to value ratios for this loan pool. This represents an increase in our risk weighted loans of almost 16% of our entire loan portfolio. Mortgage loans with balloon features and home equity loans and lines of credit are products that are desired and needed by our community clients. The impact of this change essentially will reduce our product offerings to our clients and restrict our ability to serve them. Success of community banks has been and will continue to be based upon our ability to be flexible to meet our customers' needs while maintaining our traditionally strong credit underwriting standards.

It would appear that the current regulatory focus is to regulate the risks out of transactions which would essentially make banking and in particular community banks a commodity. Once this has been accomplished, we compete primarily on pricing. Community banks are not structured to survive on pricing alone and too big to fail becomes an even larger problem.

I urge you to fully understand the impact and consequences to community banks. The Federal Reserve Board has excluded holding companies with assets less than $500 million from adopting these new proposals. It would seem prudent to establish an asset threshold for banks that would also be excluded from the adoption of these BASEL III proposals.

Thank you for considering my comments. Please feel free to contact me for additional information at 502-222-2100.

Sincerely,

Stephen Norton
President & CEO

c Senator Mitch McConnell