From: Doug Lewis [mailto:DLewis@banknorthshore.com]
Sent: Thursday, September 27, 2012 12:21 PM
To: 'regs.comments@federalreserve.gov'; Comments
Cc: Ken Johnson; Fred Lewis; Noah.Wilcox@grsb.com
Subject: Basel III Docket# R-1442: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

We own and operate North Shore Bank of Commerce in Duluth, Minnesota. A quick glance at our extended records will show that we have a long history of operating our bank in a profitable and responsible fashion. We have been consistently profitable and ranked among the top banks in asset quality since the mid 1980's. We employ about 120 people. I believe we are a constructive lender in our area, and we provide, as most community banks do, an important alternative to larger, publicly held institutions which are frequently criticized for being inflexible and purely sales driven.

Our record of operating safely a, profitably, and responsibly has been accomplished in compliance with the capital requirements that, under the proposed implementation of Basel III, will be substantially increased. While I understand and respect the desire to require greater capital cushions for banks, let me tell you, as simply as possible, what this will mean for our bank. ***The fact is that there are limited, if any, sources from which we will be able to access the capital to meet these newly proposed requirements.*** The choices will be few. There is a slight (and only a slight) chance that a sale of stock might generate the needed capital. ***A far more likely outcome is that the implementation of these requirements will result in the sale and merger of this community bank with larger, publicly held institutions.*** It is my belief that this scenario will be played out over and over, with the number of community banks diminished by extremely large percentages.

Is the elimination of a high percentage of community banks a serious public policy issue? This can be debated. Some would say that a banking system such as exists in Europe or Canada will be perfectly acceptable for the United States. Others, however, argue that our system of community banking provides consumers and businesses with an alternative system that provides flexibility needed in a society built on free enterprise and entrepreneurism. One thing for sure, the employment that is supported by these community banks will be drastically reduced.

Our community banking system has operated under its current capital rules for decades. Yes, there were a high number of failures during certain periods. But we have to ask: "Would a capital requirement that was 2% higher have prevented even a modest number of these failures?" Even more to the point: "Have all the community bank failures posed even a modest threat or burden to the FDIC?" I think the answer to that question is no.

The choice on the table regarding the implementation of Basel III at the community bank level is pretty simple: Is it worth gutting the community bank system in the United States in order to make sure that these small businesses operate under the same rules as the largest banks in North America and Europe?

I think that the answer is pretty straightforward.

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