

Ladies and Gentlemen:

Thank you for this opportunity to provide comment on Basel III proposals. I will restrict my remarks to the potential calamitous effect of the dividend restriction provisions of Basel III on bank shareholders such as my husband and myself.

As shareholders of an S-corporation bank, my husband and I report our pro-rata share of our local bank's profits on our personal income tax return; the bank pays dividends to us in an amount sufficient to pay our tax obligation relative to the income apportioned to us.

If the provision of Basel III relating to distribution prohibitions is enacted in its current form, our personal savings will be annihilated in a very short amount of time. Here's why: My husband and I are both over 65. My husband's sales position was eliminated due to "downsizing"; he has only a minimum-wage part-time job and a Roth IRA to rely upon for retirement income. I am fortunate to still be employed full time; when I retire I plan to withdraw funds from my Roth IRA and supplement that with meager distributions from my employer-sponsored retirement plan. With the bulk of our income in retirement coming from non-taxable Roth IRA distributions and social security, our cash flow, although modest, would be sufficient to meet our needs.

We realize that the pro-rata share of the bank's earnings that we must report on our personal income tax return creates a tax obligation, but as long as the bank pays dividends to cover the taxes due the tax impact is neutralized. However, if Basel III is enacted the bank could, under certain circumstances, be prohibited from paying us dividends...but we will still be obligated to pay the same amount of taxes regardless of whether or not the bank pays dividends. Our IRA savings will soon be wiped out. Once those savings are gone, the only income we will have is social security and my small retirement distributions; those amounts are not sufficient to pay ordinary living expenses as well as taxes on the "phantom" S-corporation income. THIS PROVISION OF BASEL III COULD LITERALLY BANKRUPT US.

It is my understanding that Basel III is designed to bring US banking regulations more in line with European banking regulations, but since European taxing authorities often do not recognize "flow-through" entities such as S-corporations the European bank regulators do not have to think through the ultimate impact of the decision to prohibit dividend distributions to the same extent as do US bank regulators.

When you are voting on the implementation of Basel III, please take into consideration the devastating effects the unintended consequences this legislation will have on shareholders of banks that are organized as S-corporations, and please give your highest consideration to removing from Basel III the provision regarding dividend prohibitions.

Best regards,

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