



October 3, 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 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. All of my comments are specifically directed towards the impact of the proposed rules on community banks.

While there may be valid reasons for the applicability of these rules to larger and more complex financial institutions, the inherent complexity serves to hinder the process of capital measurement for community banks. A simpler and more transparent method of measuring capital adequacy for community banks similar to what FDIC Director Tom Hoenig has proposed provides for less regulatory burden and more clarity. Until that goal is realized, community banks should be allowed to continue using the current Basel I framework for computing their capital requirements.

The inclusion of accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and again introduce additional unneeded complexity into planning and maintaining consistent levels of capital for community banks. Community banks should continue to exclude AOCI from capital measures as they are currently required to do today.

Implementation of the capital conservation buffers for community banks again adds complexity to capital calculations when it is clearly not needed. The development of reasonable and simply defined capital requirements can serve the community banking industry well and eliminate the need for the more complex calculations.

The proposed risk weight framework under Basel III is too complicated and will add yet another level of unnecessary regulatory burden on community banks. Increasing the risk weights for residential balloon loans, interest-only loans, and second liens could serve to limit the availability of loan products to customers and deprive customers of many financing options for residential property. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans.

The proposed ten year phase-out of the tier one treatment of instruments like trust preferred securities (TRUPS) as a reliable source of capital for community banks was not the intent of the Collins amendment of the Dodd-Frank Act to permanently grandfather tier one treatment of TRUPS issued by bank holding companies between \$500 million and \$15 billion. Phasing out this source of capital would be a particular burden for many privately-held banks and bank holding companies that would be faced with the challenge of finding suitable alternatives to replacing this important component of capital. Consistent with the Collins Amendment, banking regulators should continue the current tier one treatment of TRUPS issued by those bank holding companies with consolidated assets between \$500 million and \$15 billion in assets.

Regards,



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