October 11, 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.

As I see it, community banks operate on a relationship-based business model that is specifically designed to serve customers in their respective communities on a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. The largest banks operate purely on transaction volume and pay little attention to the customer relationship. This difference in banking models demonstrates the need to place tougher capital standards exclusively on the largest banks to better manage the ability to absorb losses, while allowing small community banks the flexibility to deal with customers the way the large banks used to.

Inclusion of accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for most community banks represents unrealized gains and losses on investment securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. Recently, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. However, most banks are not actively trading these securities, and so they don't take the gains, as they do not suffer the losses when rates move higher, and losses appear. We have been accounting for these gains and losses for years and have never taken gains or losses, unless we are improving our portfolio, which is really only done to further improve earnings, which are already sufficient.

Other concerns include capital. Our capital is more than satisfactory, because we retain as much of our earnings as possible. The problem comes if we were required to all of a sudden increase capital. It would be difficult to do, as this is not an immediate capability. However, if given enough time, we could recapitalize sufficiently because we are generally conservative bankers, with conservative values. We have to be. We live in small towns with our customers, who expect us to be.

Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans. We make very traditional loans with regard to real estate that have proven the test of time. Furthermore, community banks will be forced to make significant software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine the proper risk weight categories for mortgages. This thirst by regulators to track every aspect of real estate lending, just to track information that is subject to interpretation in any regard, will only lead to a decrease in lending by the smallest of banks, which hurts this country to its core.

Also, I would like to ask that you refrain from disallowing Subchapter S banks to provide their shareholders the ability to pay dividends for the purpose of paying taxes. I know my small institution pays little extra out for the express purpose of leaving behind everything possible to grow the base of capital to insure our existence in the future. However, if the bank were to fall on extremely hard times, we certainly need this flexibility. The only way the bank would have to pay tax is if they made money, so we should be able to make the distribution for this purpose.

In closing, I would like you to consider the option of keeping the small town, small bank option under a Basel I type capital scenario, which has served banking and our country well for generations. I should know, I am a third generation banker.

Sincerely:

Gregory G. Traxler
President