From: Jim Meyer [mailto:jmeyer@fsbks.com]
Sent: Tuesday, October 16, 2012 4:59 PM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Dear Sir/Madam:

As a community banker for 30 years I consider this the most dangerous proposal I have ever seen especially with the extremely low interest rates that we are now subject to, at the hands of the Federal Reserve Bank as they try to fulfill their mandate of employment and controlling inflation.

1. This proposal is extremely cumbersome and burdensome for a small bank of $57M. I don't have the expertise as it pertains to the mathematics of beta risk necessary to calculate interest rate risk and gains as it pertains to my securities or loan portfolio. I'm not sure having that skill set would help anyways as the question: "Who knows what's going to happen next?" is a real cause for concern. I do know this; I have tried to shorten the duration on my securities and put shorter interest rate adjustments on loans as is possible in order to weather any storm.

2. The risk weightings, especially in the mortgage loan category, are excessive, and will further chill an already challenging market. Rules already in effect and proposed, including escrow requirements, balloon note limitations, appraisal standards, additional disclosures, "QM" and "QRM," and new "zero tolerance" on the "Good Faith Estimate," among others, have significantly curtailed mortgage lending among some banks in our community, especially the "in-portfolio" loans. A number of banks in our area have simply stopped making mortgage loans to their customers, thanks to regulatory and legislative "overkill" in an attempt to fix problems that I didn't contribute to nor participate in.

3. Further, the proposal appears to ignore the existence of the Allowance for Loan and Lease Losses in providing for a buffer for both identifiable and anticipated exposure in the loan portfolio. If additional risk weights are applied to "problem" loans, does that negate the necessity of specific reserve allocations?

4. The proposal contemplates reflecting market valuation swings of a bank's AFS portfolio in Tier 1 capital. This is now referred to as "Accumulated Other Comprehensive Income" (AOCI), and will require community banks to hold additional capital to compensate for volatility in interest rates. Penalties for falling below mandated regulatory capital levels are severe, and banks will likely move to shorter maturities, sacrifice liquidity and/or forgo expansion or growth based upon inevitable swings and market uncertainty. This is probably the most dangerous proposal of all as most securities purchased by community banks are based on the long haul not a short haul but this proposal is particularly odorous as it counts this as tier 1 capital. We would be better off under Basel 1 as this does not apply. But if making banks more dangerous and create a level of instability. This proposal should do it as interest rates which are volatile now and will remain so for some time should create a ton of excitement as capital levels fluctuate uncontrollably.

5. Large banks have the ability to hedge the interest rate risk exposure on their securities portfolios. Community banks don't have that luxury and are unable to do so in an economically feasible manner.

6. Access to the capital markets is limited in many cases for community banks. With additional regulatory costs, legislative and regulatory mandates impacting revenue opportunities (mortgage lending restrictions, overdraft limitations, interchange price fixing), more risk and

lower loan demand in the marketplace due to the economic slowdown and the low interest rate environment, earnings are understandably under stress. Higher capital requirements and additional expenses will only exacerbate these problems, making the attraction of new capital with the promise of more risk and a lower return on equity a difficult proposition.

7. Further, the cost of borrowing for already strapped municipalities and other government entities will increase as banks will be loath to hold longer maturity securities for fear of interest rate swings and capital degradation.

I want to thank you for allowing me to comment on this proposal. I am sure the one size fits all thought would make things easier for those who regulate banking. However, as a community bank I don't have the resources in manpower, skill, or equipment to compete with billion and trillion dollar banks, but this proposal mandates that I try. Will someone please tell me what a conservation buffer is? This sounds like I should be thinking of solar panels for the bank and recycling aluminum cans. Look if you want banks to be at a 10.5% capital level just give us to 2019 and we'll get there. But don't add another term that needs to be calculated and don't add the uncertainty of security portfolio gains/losses as an additional complication to an already complicated world.

One final word. I think about this stuff everyday some evenings I don't sleep well other nights I sleep OK. But I do think about everything as a community banker should. This proposal is dangerous and unnecessary. Trying to make all of us fit into the same category will cause more hardship and mergers as nothing else will. It will damage the community banking model as we know it today.

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