From:	Tom Bailey <tbailey@brentwoodbank.com>
Sent:	Friday, October 19, 2012 5:55 PM
To:	Comments
Subject:	Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
Re: Regulatory Capital Rules:

As President and CEO of Brentwood Bank a $450 million dollar State Savings Bank located in western Pennsylvania I am writing to voice my concern over the Basel III NPR proposal to include unrealized gains and losses on available for sale ("AFS") securities in regulatory capital.

By subjecting Community Banks capital to the fluctuations in market value of their investment securities you are impacting a potential source of future capital. Community Bank's use their investment portfolio as a way not only to mitigate interest rate risk, but provide liquidity, and earnings. By subjecting the investment portfolio and only the investment portfolio to fair value accounting the proposed regulation may cause one and as many as three scenarios:

1) Limit a bank's ability to produce future earnings by becoming conservative with the investment portfolio to minimize fluctuations or minimize interest rate risk in other areas of the balance sheet.
2) Place more securities in the held to maturity portfolio therefore reducing flexibility.
3) Pressure Banks to substitute credit risk for duration risk to maintain earnings.

If implemented Banks may become so conservative on their investment portfolio as to avoid any fluctuations in their investment portfolio; worse yet Banks needing to hold capital against potential securities price volatility, leave less capital to support lending driving up borrowing cost resulting in a continued drag on the economy.

Given the negative consequences, the most prudent course of action for the Agencies is to avoid any temporary volatility in regulatory capital by excluding all unrealized gains and losses currently recognized in other comprehensive income but not in regulatory capital. Failure to do so could hamper banks' ability to manage interest rate risk and may create a perverse incentives for banks to increase other risks in order to avoid capital volatility while maintaining earnings. I believe the only prudent solution, is to exclude all unrealized gains and losses from regulatory capital.

I appreciate the opportunity to provide these comments on the notice of proposed rulemaking regarding Basel III.

Sincerely yours,

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