October 22, 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[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

North Jersey Community Bank, founded in 2005 by civic and business leaders in Bergen County, NJ has grown to over $822 million in assets in seven short years with the help of our Board of Directors, shareholders, employees, and loyal client base. We were ranked #3 in New Jersey by the Financial Management Consulting Group and named one of the Top 5 Best Performing Community Banks in the Nation according to SNL Financial, a leading provider of news and data on the banking and financial services industry. Today, NJCB has branches in Bergen, Hudson and Monmouth counties, and our technologically advanced products, like mobile banking, allow us to extend our reach beyond the geographic locations of our branches. NJCB has achieved rapid growth during one of the worst economic downturns our country had seen in decades, and I have no doubt that our success is a result of our commitment to our relationships with our clients and our community. Here at NJCB, we see ourselves as a customer service organization that just happens to be a bank. Each NJCB employee cares about its customers' financial future and forms partnerships with them, often introducing customers to each other, adding value to their banking relationship. If Basel III goes into effect, banks like ours will be severely affected, ultimately causing a downturn in small business.

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[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

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While I recognize Basel III was crafted in an effort to build more security around the banking industry and prevent the failure of large complex financial institutions, the accord may ultimately cause more harm to our industry as a whole and poses even greater risk to our nation's small businesses. Lumping an institution with $500 million in assets in the same category as a national organization hundreds of times that size is a recipe for disaster. While I understand that higher capital requirements provide financial institutions with a buffer, and may actually have mitigated the financial crisis that hit our economy, I do believe that a "one-size-fits all" regulation is detrimental to our community banks. In our current environment, smaller institutions are disadvantaged in the capital markets and Basel III will be a burden that may be too much to handle. Today, the US banking system is at its highest capital ratio since the 1940s, and increasing this requirement will decrease lending capacity in the US banks that are already well capitalized. More specifically, New Jersey banks have had a very low failure rate in this economic downturn, indicating a reasonable capital level.

There are heightened risk weightings for certain types of lending embedded in Basel III. This will force many banks to reconsider the types of loans they make and may actually cause smaller banks who concentrate in a specific type of lending (due to geographic limitations) to reduce their portfolios, taking away the individual character decisions made by community banks. Community banks are more holistic in our evaluation in lending and take risks; we are not systemic organizations. Sure, Too Big To Fail banks can cut out a segment of their lending and still be able survive, but what about a smaller bank that specializes in that arena? Those banks may be forced to merge or be acquired in order to comply. My question is whether the focus here is to reduce the institutions in this country? The larger banks will shun riskier assets and instead focus on what are considered assets with lower risk. Those needing lines of credit or commercial mortgages will find it much more difficult to obtain these "riskier" loan types.

High capital alone is not enough to prevent against bank failure. Over time, excessive capital levels will increase the cost of capital to the banking industry and decrease lending. In circular fashion, the reduced economic growth resulting from decreased lending activity will result in weaker banks. In this new proposed world of excessively high capital requirements, capital will flow first to the large banks that have liquidity and pricing power. The smaller banks will then struggle to reach these heightened requirements, directly impacting their small business borrowers.

Basel III also increases the complexity of regulation and directly increases compliance costs for all institutions. This will force smaller banks to reevaluate their business models. A TBTF institution may not feel the effects of adding one or two more people to their staff, however for a smaller institution, this could represent a 50% increase in compliance cost.

Now, let's evaluate the segment of our economy who stands to lose the most: *our small business owners*. As a community bank, we are able to sit down with our clients one-on-one and talk to them about their circumstances, consult on their business plans, and work out solutions that benefit both their business and ours. It's an essential partnership, and it's the kind of relationship that simply cannot be replicated at the largest TBTF institutions, where algorithms dictate who receives needed capital and who gets left out in the cold. We serve as a life line to our local small business owners who's numbers did not plug into the TBTF algorithm to produce profits. The increased capital ratios along with higher cost of capital and compliance mean that small businesses will have a very difficult time finding banks that will consider lending to them, even if they are a highly qualified borrower. Those who have been long-standing trusted banking customers could be shunned by their own bankers, regardless of the strength of their business plan. The few banks that *will* lend to small businesses will resort to selling limited and cookie cutter product offerings with zero flexibility. Moreover, the fact that smaller banks will be forced to be acquired, means small business owners will be faced with fewer choices in community banks. Less choices means less competition, and in any industry, this results in a higher cost for the consumer, resulting in decreased development in the small business sphere.

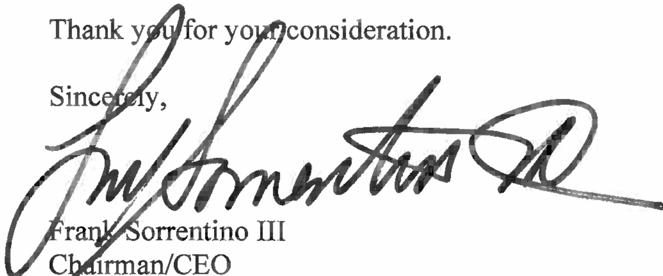
More capital sounds to most like a good thing, but the devil is in the details here and we will not be happy with the unintended consequences. What we need is regulation with varying standards based on complexity and risk, not the size of a financial institution.

In order to level the playing field and credibly deal with the too big to fail problem, the Federal Reserve Board should reexamine the appropriate levels of competitive concentration. My suggestion is to create a set of standards related to the size and complexity of the institution or lending need. As an institution grows, it will follow standards based on its new size and/or complexity, allowing it to grow efficiently while staying compliant, resulting in increased lending. In contrast, accommodative standards could be implemented to address banks that pose no systematic threat, have simple business plans (take in deposits and make loans to the same deposit base), and provide invaluable service to the largest generator of jobs in the country: small business.

Basel III is a regulation that will drive down the number of banks and limit the development of small business, the engine that fuels our economy. Fewer choices in banks, less lending, and less diversity in types of lending all lead to a homogenized business environment, which limits growth in our country. A one-size-fits- all approach will not necessarily help the U.S. banking system. At a time when we need banks to lend as much as possible, there are significant questions about how new capital requirements will alter the lending profiles of strong banks. Basel III is so focused on providing an immediate band-aid, that it fails to take into account that as the economy eventually improves (slowed lending not withstanding), the needs of banks and small businesses will inevitably change. The simple fact is, what works today, might not work in a different economic framework, most importantly a growing one. With the comment period drawing to an end, I hope you will reevaluate the unintended consequences Basel III will have on banks like mine, and the clients and communities we serve.

Thank you for your consideration.

Sincerely,



Frank Sorrentino III
Chairman/CEO
North Jersey Community Bank