



COMMUNITY BANK CORPORATION

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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 proposals¹ 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.

I am the Chief Credit Officer of Community Bank located in Chaska and Chanhassen, Minnesota. We are a small bank with assets of \$150 million. My comments on Basel III will focus on the negative impact it will have on lending.

I believe Basel III jeopardizes the viability of the community bank model. It is sweeping in scope and complexity and does not provide an exemptive relief for small community banks with simplified balance sheets and localized lending activities.

The complexity of mortgage risk rates based on loan-to value ratios will create an undue regulatory burden for community banks. Penalizing higher loan to value loans with additional credit enhancements will curb future lending. In our bank, we can find no statistical correlation between high loan to values loans and risk of loss. We focus on borrower cash flow versus collateral value. Our losses from residential lending activity have been minimal. Raising rates on residential loans will impair home financing by raising borrowing rates and limiting borrower access to financing.

I strongly believe community banks under \$1 billion in size should be exempted from the burden of Basel III.

Thank you.

Sincerely,

Nancy Aune
Chief Credit Officer
Community Bank Corporation

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*.