# Easton Bank & Trust

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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 Gentleman:

As CEO and President of Easton Bank and Trust in Easton, Maryland I thank you for extending the comment period regarding the Basil III proposals and related Standardized Approach to Risk Based Capital calculations. Please incorporate my reflections in your deliberations:

1. Easton Bank and Trust is a $150 million Community Bank working to support the needs of our local community. The Eastern Shore of Maryland continues to suffer from the Wall Street Based economic meltdown. One local bank has failed and many are under extreme stress. Eastern Shore Community Banks did not participate in the reckless activities of Wall Street and the resultant damage to our community and markets.
2. Capital preservation is job 1 for community banks in stressed markets. As a Subchapter S corporation with 74 stockholders, Easton Bank and Trust has limited access to capital. Basil III and the Standardized approach in particular will restrict our capacity to lend. Risk weightings defined in the Standardized Approach will clearly restrict mortgage lending and diminish our capacity to serve our local community.
3. Risk Weights will injure customers who have suffered from any form of hardship. Three years ago Joe died from a long battle with cancer. His wife left her job to be his hospice nurse for a period of 9 months. We told her to put first things first and care for her husband. She used her

savings to keep the loan relatively current but was consistently between 90 and 120 days past due. After her husband died she returned to work, brought the loan current over the ensuing 6 month period, and has never missed a payment since. The Standardized Approach will punish community banks from serving as compassionate members of their community. I can cite multiple examples of Mega Banks that proceeded to foreclosure in similar instances.

4. Mortgage lending is the core of our loan portfolio. The Standardized Approach rationalizes that Loan to Value is more important than Cash Flow and Relationship Banking. Utilizing Loan to Value as the primary basis for Risk Based Capital is a deviation from the logic of Cash Flow lending and places limited importance in relationship banking and knowing our customers.
5. Incorporating AOCI in Regulatory Capital clearly places capital at risk should interest rates rise. Regulatory strategies of this nature attack the need for longer term thinking and place accounting theory above economic logic. Mark to market strategies of this nature will accelerate the consolidation of community banking.
6. The new risk weights on nonperforming loans represents the equivalent of a triple dip to loan loss reserves. Banks in stressed markets properly reserve for losses based on current loan loss reserve methodologies. Many banks have reserved above the 1.25% allowed as a component of risk based capital. Excess reserves are not included in capital. The Standardized Approach further taxes capital with increased risk weights on nonperforming loans.
7. The timing for Basil III and the Standardized Approach could not be worse. Margin pressures have placed historic challenges to community bank profitability. Earnings represent the key capital formation tool for community banks like Easton Bank and Trust. Easton Bank and Trust generates core income from lending to small business and consumers in the markets we serve. We do not have derivatives, hedging, CDS, wholesale lending, or proprietary trading operations. Restricting our capacity to lend to our community will diminish our capacity to participate in the economic recovery of the Eastern Shore of Maryland.
8. Phasing out TRUPS from Tier 1 capital reduces a reliable source of capital for community banks and clearly conflicts with the intent of the Collins amendment of the Dodd Frank Act.
9. As a Subchapter S Community Bank our shareholders pay tax on earnings even if those earnings are retained to support the capital needs of our bank. The capital conservation buffer should not be imposed on Subchapter S companies that maintain adequate regulatory capital, adequate loan loss reserves, and wish to distribute earnings which provide stockholders the funding to pay income taxes on undistributed earnings.

Kindest Regards,

R. Michael S. Menzies, Sr.
President & CEO