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October 1, 2012

The Honorable Ben Bernanke
Chairman of the Board of Governors
Federal Reserve System

The Honorable Tom Curry
Comptroller
Office of the Comptroller of the Currency

The Honorable Marty Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation

Dear Chairman Bernanke, Comptroller Curry and Acting Chairman Gruenberg:

I am extremely disappointed at the proposed NPRs issued as a result of the Basel III Accord. While the Chairman of the Fed says this is not intended to be a one size fits all, it appears to be just that. You are creating requirements for additional ongoing record keeping that will be so burdensome for a bank like ours (\$200,000,000 in assets) that it will create thousands and thousands of dollars in added expense every year. The smaller the bank, the higher this expense will be as a percentage of our assets. But you also say you don't really believe banks like ours will need to add capital to meet the requirements. If this is the case, why would you make us incur such expense? This proposed capital requirement was intended for large, internationally active banks. Limit its application to that. Allow any bank below fifty billion to meet a simple capital ratio, because your so called simplified approach is not simplified.

Next, it appears to specifically violate the intent of Congress in rejecting the treatment of Trust Preferred Securities as provided in the Collins Amendment to Dodd Frank. I was told by a Federal Reserve Governor that the Fed believed that this amendment simply allowed the Fed to grandfather trust preferred securities, but did not prohibit them from limiting or disallowing their use. From my perspective, and frankly from that of every member of Congress with whom this has been discussed, this is absurd. While my little \$200,000,000 bank is far from growing into this as a problem, I warn you that taking these sources of capital out of the banking industry will limit the ability for banks to solve their own problems. Some banks may actually have to sell

instead of continuing to operate, even successfully, because of the limited ability of banks to raise capital. The combination of these NPRs is further poisoning the capital markets for banks.

Proposing to deduct from the current capital calculations the unrealized losses on available for sale securities does not take all aspects of interest rate risk into account. For example, you propose to deduct the decrease in value of unrealized securities losses only. But you do not provide recognition that our low cost non-maturity deposits are significantly more valuable if the value of our bonds is falling. Interest rate risk is properly considered only on a case by case basis, based on individual bank modeling. In a community bank that is a going concern, you have all the tools necessary to monitor and control interest rate risk without adding an unbalanced capital burden to do the same thing. I will just decrease my bank's investment in securities of any kind to minimize this capital fluctuation.

Finally, the risk weightings as proposed are just not appropriate for measuring the capital needs of a community bank. You know a loan that is unsecured is riskier than one that is covered by collateral, even if it is at 100% loan to value. But you will give a lower risk rating on the unsecured loan. Next, if my bank is using balloon notes to manage interest rate risk, you are going to punish us on our capital calculation, when a loan with limitations on re-pricing will increase that risk over a balloon note. You want to measure and deduct that on risk in our bond portfolio, but punish us for protecting ourselves with balloon notes. It appears you are simply using a capital requirement to discourage banks from providing home loans.

My bank is in a small, rural market, Russellville, Arkansas and the surrounding two counties. More than ½ of this land is owned by the National Forest or timber companies. We just don't have purchasers for the mortgages made in these areas. Rules are applied to underwriting and appraisals that just can't be met. For example, there may not be three comparable sales in six years, much less the required six months. But people living here deserve at least the option of a loan we can do, and it is the money of my shareholders, mostly my family, at risk. I can't securitize the loans and unload the risk. If the bankers in a community bank make the loan, they believe they will be paid. But if we are trying to earn a modest 10% return on equity, then the 200% capital weighting requires around a 50% higher interest rate to meet those goals. And that pushes the loan into an unaffordable status, denying these rural residents needed lending.

Frankly, I see these proposals pushing everyone into homogenous tract housing for the consumers, homogenous family budgets and no way for a bank to serve a local market with any individuality or concern for individuals. It is the Stratford Wives for both banks and our customers. I believe the current risk capital calculations are adequate for all banks below 50 billion and that none of these NPRs should be applied to these banks. Give us a higher leverage capital ratio if you must, but keep the basis of the calculations the same as now. Let us stick to a truly simple calculation, not this non-sense of further and further stratification of our assets.

That will continually add to the expense of our information systems and disproportionately increase the expense for a small bank.

Sincerely,

Charles H. Blanchard