10/18/12

To: Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS, FDIC

From: Tom DeRobertis, VP/Controller, CNB Bank & Trust, N.A.

Re: FDIC - Basel III RIN 3064-AD95, RIN 3064-AD96

Thank you for the opportunity to comment on the Regulatory Capital Rules, Standardized Approach for Risk-Weighted Assets; Market Discipline & Disclosure Requirements; Proposed Rule. This comment letter is being written from the perspective of an OCC regulated community bank with approximately $710 Million in Assets. Our lending emphasis is agricultural and small business. We also have a strong residential lending presence. As the controller of the bank, I appreciate the efforts the regulatory agencies put into creating the Regulatory Capital Estimation Tool.

Although I do have major concerns regarding the reduction of lending community banks will be able to provide to their local communities throughout the country, my focus of this letter is based on the burden this will place on banks to comply with these changes.

My first concern has to do with putting accumulated other comprehensive income (Call Report item 26b) into the capital equation. During times of market distress, this unrealized gain or loss on securities can be volatile. This volatility will force banks to potentially change the structure of their securities portfolio. Banks may decide to go extremely short on their maturities to reduce the volatility. These banks that choose to reduce their portfolio maturity dates will reduce interest income, potentially create GAP mismatch issues, and over the long-term they will reduce capital appreciation. This in turn will erode capital levels over years. Banks that choose to not change their portfolio maturities may find themselves with capital positions far lower than forecasted. Many banks are just recovering from the prolonged financial crisis, and are attempting to strengthen their capital position. Immediately marking these securities to market also impairs the ability of the bank to ride out temporary market fluctuations. Banks may end up selling a position in their portfolio to reduce the negative accumulated other comprehensive income, but in turn they have increased commissions paid and they could find they have not improved their position.

My next concern has to do with the “Standardized Approach Values” and the decision to change the risk weighting on the loans secured by real estate. Ironically this could cause a bank looking to reduce its risk-weighted assets to structure a loan so that it is not secured by real estate. This could actually reduce the strength of the collateral. A major concern has to do with the efforts banks will need to put in place to comply with these loan-to-value ranges. These loan-to-value ratios are not static numbers. The time that would be needed to put in place to ensure some measure of accuracy will be near impossible for some banks to manage. The current risk-weighting percentages seem to make more sense. I don't follow the logic in increasing the risk-weighting percentage on non-accrual loans. This should already be allocated for in a bank's FASB 114 calculation.

The results of these proposed changes will be to reduce the lending ability a financial institution will be able to provide to its community. The additional regulatory burden will reduce earnings, which in turn reduces the bank's capital and weakens a banking industry at a time when the industry is attempting to strengthen itself. I would like to request consideration to exempt banks under $1 billion in total assets from the capital and real estate risk-weighting limits proposed in this NPR.

/s/

Tom DeRobertis, Vice President/Controller
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