OC12-293

CNBSI Carlinville National Bank Shares Inc.

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October 19, 2012

Mr. Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Mr. Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Re: Comment Letter regarding 12 CFR Part 3:
Regulatory Capital Rules (Proposed Rules)

Dear Sirs:

As president of Carlinville National Bank Shares, Inc. of Carlinville, Illinois, including its $700 million CNB Bank & Trust, N.A., I am here by writing to express my disapproval of including community banks in the proposed Basel III capital requirements.

I also serve on ICBA's Regulation Review Committee, which recently met with representatives from each of your agencies in Washington, DC. At those meetings and through subsequent comment letters from fellow bankers and our trade associations, we have persistently expressed our concerns with numerous aspects of the proposed calculations and related requirements. I will not repeat wordy explanations of our concerns on each contentious provision, but will simply list them, and then provide specifics on the potential impact on my institution as calculated using the OCC template.

Listed below are several components that I believe to be ill-advised:

- **Increased risk-weighting for past due loans**: we already account for this through our quarterly ALLL analyses.
- **ALLL disallowance above 1.25%**: such reserves are an important capital component, particularly in a counter-cyclical framework of making provisions.
- **Increased risk-weighting on balloon loans**: it is illogical to label these as higher risk, and they are an important product, especially in rural communities.
- **Reduced allowance for mortgage servicing assets**: these are also important assets on our balance sheet, and represent a service that's popular with our customers.
- **Cumbersome tiers for loan-to-value categories**: this is also a consideration in our ALLL analysis, and therefore would double the impact on capital.
- **Requirement to tie HELOCs to first mortgages we may have**: a cumbersome, manual process that's illogical and overall insignificant.

But my main concern is relative to the inclusion of AOCI. When interest rates go up, the value of our investment portfolio goes down. Yet, the value of our deposit liabilities similarly go up, and effectively offset much of the impact on the investment security values.

Upon inputting our data into the OCC's Basel III template, we experience an increase in our capital ratios versus current rules; but should our current unrealized gain fall to zero, we would suffer about a 40 basis point decline in our Basel III ratios, and a 300 basis point rate shock would result in more than a 100 basis point decline in the ratios.

If any AOCI component is included, it should just be the difference in values from interest rate changes as they affect both sides of the balance sheet. This would be meaningful only when there's a mismatch in the timing of rate adjustment periods for assets versus liabilities. Any other approach effectively distorts the balance sheet.

I hereby request that community banks be allowed to remain under the current Basel I rules, which are a much better fit related to the lack of complexity in our financials and our product offerings. Should a decline in capital due to interest rate increases place us within the proposed "buffer", and consequently our most likely source for additional capital, our shareholders would naturally be reluctant to invest.

Respectfully,

JT Ashworth

James T. Ashworth
President