
Charter Bank

October 10, 2012

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 – 17th Street, N.W.,
Washington, D.C. 20429

Re: Proposed Basel III Regulatory Capital Rules

Dear Mr. Feldman:

Charter Bank Eau Claire is a \$560 million community bank with one location in Eau Claire, WI. In our 32 years of existence, we have had a very positive impact on the economy of our area and the lives of our customers. We have a loan portfolio of \$360 million, and a bond portfolio of \$170 million. We are very profitable and well capitalized, as are most community banks.

The proposed implementation of Basel III capital rules on community banks is the most anti-business and anti-lending legislation that any of us can remember. Its implementation will certainly prolong the current lackluster recovery, as bank lending and the market for longer duration municipal bonds “freezes up”.

It appears that much of Basel III capital rules have severe repercussions for loans that are secured by real estate. Normal bank lending terms will be branded as risky lending, adversely impacting an already shaky real estate recovery. Real estate collateral loan-to-value (LTV) is a major driver of capital requirements under the proposed Basel III rules. However, real estate LTV is only one factor in determining loan risk. Bank examiners have already relegated real estate collateral behind cash flow in determining loan portfolio risk. We have experienced, in this recent real estate downturn, that focusing on loan to value has provided little protection from losses, as several of our best LTV loans have caused our biggest losses.

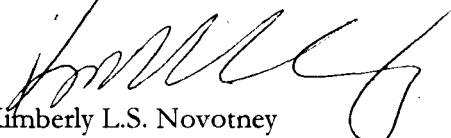
Charter Bank Eau Claire has been an active buyer of long term municipal bonds for over 20 years. Flowing unrealized losses through to Tier One Capital will force many banks to invest only in short term Treasuries and Fed Funds, not only robbing community banks of the much needed yield available with longer duration securities and limiting the number of potential buyers for municipal debt, but also complicating a bank's efforts to correct a balance sheet that is too asset sensitive.

There is nothing beneficial to community banks in the proposed Basel III capital rules. The FDIC, OCC, and the Fed must withdraw the proposed implementation of Basel III capital rules on community banks, and not force community banks to be subject to the same capital calculation treatment as complex international institutions, which get “too big to fail” treatment not afforded community banks.

The directors, shareholders, and officers of Charter Bank Eau Claire are deeply concerned that implementation of Basel III capital rules on community banks will severely damage the franchise value of most community banks, and prolong the current economic downturn indefinitely. The FDIC, OCC, and the Fed must withdraw the proposed Basel III capital rules.

Thank you for the opportunity to be heard on this critically important matter.

Charter Bank Eau Claire


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