350 Iron St. • P.O. Box 668
Negaunee, MI 49866

(906) 475-4151
(906) 475-4264 (fax)

October 15, 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, D.C. 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 Proposals

Ladies and Gentlemen:

Thank you for the opportunity to comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

Range Bank, N.A. was chartered in 1887 and this year we celebrated our 125th Anniversary. We are a proud community bank with assets over $285,000,000. We have 12 offices located in the Central and Western Upper Peninsula of Michigan. As of June 30, 2012, Range Bank's ratios were as follows: Leverage Ratio of 9.56%, Tier 1 Capital Ratio of 13.64%, and the Bank's Total Capital Ratio stood at 14.59%. Our history and intent has always been to hold capital in excess of the minimum requirements. Range Bank, N.A. has grown and thrived by doing things the right way: Serving our communities and maintaining credit quality with strong fiscal management.

I would like to stress that I am in favor of strengthening safeguards that may be put in place to help avoid another financial crisis. However, it seems that community banks are feeling the brunt of what may be more appropriate for the very large and foreign banks. This is especially true when it comes in the form of the proposed Basel III regulations. We have several concerns with the proposed rules and I will spell out some of them in this letter.

First, the proposed rules regarding residential mortgages could make mortgages more difficult to obtain in our market. Adjustable rate and balloon mortgages are necessary lending products we provide to our customers. In addition, they help our bank manage interest rate risk. Being rural in nature many of our customers have non-conforming, a-typical property types that do not conform to secondary market guidelines. We would be forced to (a) originate 15 – 30 year mortgages to these customers, which in turn will increase our interest rate risk, or (b) exit the non-conforming real estate market. Requiring higher risk weighting on these loan assets would require more capital, therefore, potentially increasing the cost, or reducing the availability, of credit.

Second, we are involved in home equity lending and the increased risk weighting associated with home equity lending could potentially limit consumer's access to credit. As mentioned earlier, we take pride in credit quality and high loan to value loans to non qualified borrowers is an arena where we do not participate.

Third, the requirement on increased risk weighting on delinquent loans is redundant. This is already addressed and accounted for in our Allowance for Loan Loss and Leases (ALLL) analysis.

Fourth, at the time of loan origination, many of the components used to calculate the proposed risk weighting requirements were not captured in a readily available format. Bank staff, during a period of historic low interest rates, would be required to review all loan files to determine the appropriate risk weighting. Furthermore, that information may not be accurate, as some customers may have borrowed funds several years ago, paid down their notes and/or made improvements to their property, and the property has not been reappraised. This would not be a true representation of an accurate loan to value ratio which is a key component in the risk weighting.

Fifth, the inclusion of Accumulated Other Comprehensive Income (AOCI) in capital calculations will cause increased volatility in capital ratios and may result in a rapid depletion of capital. Range Bank's AOCI consists of unrealized gains/losses on investment securities held available-for-sale. Due to the low interest rate environment, our bank, along with many other banks, has a net unrealized gain in excess of $1.4 million. If interest rates increased by 300 basis points, Range Bank's investment portfolio would show a net unrealized loss (a paper loss) of $1.7 million. The Bank's Tier 1 capital ratio would decrease 2.21%. This dramatic change in capital, due to an unrealized loss, will cause an unnecessary hardship on banks.

Sixth, phasing out Trust Preferred Securities as a viable source of capital burdens community banks and removes one important option for a community bank to raise capital. The proposed rule should be revised to recognize the Collins amendment by permanently grandfathering outstanding Trust Preferred Securities for institutions between $500 million and $15 billion.

As previously stated, I agree increasing capital requirements is an important safeguard that should be implemented to help avoid another financial crisis, but your proposed requirements should not be forced upon community banks. The requirements should be imposed upon large banks and foreign banks. These requirements will lead to reductions in performance and profitability metrics of community banks, including, but not limited to, increased non-interest expense and higher efficiency ratios for community banks. The requirements will not lead to increased capital deployment throughout this great nation; they will lead to capital conservation at a time when banks need to deploy capital to help improve the economy.

Respectfully Submitted,

Kenneth A. Palmer
Chairman, President and Chief Executive Officer