CB&T

Caldwell Bank and Trust Co.

Monty B. Adams
President

September 27, 2012

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: FDIC Basel III NPR (RIN 3064-AD95)

Dear Mr. Feldman:

As President of Caldwell Bank and Trust Company, a One Hundred Million Dollar Community Bank, I urge the FDIC to make significant modification to the Basel III NPR.

It is my understanding that Basel III was conceived as an international standard that would apply only to the largest, internationally active banks. However, the proposed rule would impose Basel III standards on banks of all sizes.

Smaller institutions should not be subject to the same complex standards required of larger and riskier financial firms.

The issues of regulatory burden and the unrealized gains and losses are two areas of major concern:

Regulatory Burden

The proposed rules to implement Basel III capital standards would impose undue regulatory burdens on community banks without materially reducing the industry's risk profile – a profile dominated by the nation's largest financial institutions.

This is a complex and cumbersome proposal, and the requirements for compliance will significantly add to an already high level of regulatory burden and cost for community banks.

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Community banks are the primary source of credit to small business borrowers, and those businesses create the bulk of the new employment opportunities and economic activity in this country. These new regulations will likely result in consolidation, reducing credit availability for Main Street borrowers. Further consolidation and concentration of the banking industry should not be a goal – intended or otherwise – of public policy. The Basel Capital proposal epitomizes unnecessary regulatory burden, and will have severe consequences on the community banking sector.

Unrealized Gains/Losses

The proposed rules will require all banks to include unrealized gains/losses on AFS securities in Common Equity Tier 1. This change will introduce potentially serious volatility in the regulatory capital ratios, if and when interest rates begin to rise. Penalties for falling below mandated regulatory capital levels are severe, and banks will likely move to shorter maturities, sacrifice liquidity and/or forgo expansion or growth based upon inevitable pricing swings.

The unrealized security losses caused by interest rate swings should not be included in the regulatory capital calculations. With the current artificially low interest rate environment, the only movement in rates will be upward, which will negatively impact capital ratios for all banks. The industry has operated for decades without including this unrealized loss in regulatory capital ratios, and recent banking failures were not caused by unrealized security losses.

Also Caldwell Bank is a Sub Chapter S Corporation and the limitation on shareholder distributions will have a negative impact to the Sub S elections.

S-Corporation Issues

The definition of eligible retained income should be modified to be net of pass-through tax distributions to shareholders of banking entities that have made a pass-through election (S Corporations and LLCs). Failure to allow for these distributions, at least up to the level of taxes that would have been paid had the entity not made the pass-through election, imposes a penalty on these entities and their shareholders relative to a similarly situated C Corporation.

Sincerely,

Monty B. Adams
President