KBA Kentucky Bankers Association
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October 15, 2012

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 20219
Regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Regs.comments@federalreserve.gov

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

Subject: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

No. R-1430;
RIN No. 7100-AD87;
Docket ID OCC-2012-0008;
FDIC RIN 3064-AD95

Dear Ladies and Gentlemen:

We, the undersigned in each of our representative capacities, write on behalf of the responsible and sound Kentucky banks regarding the Basel III proposals being considered by each of the federal banking regulators.

Kentucky bankers understand the need for sufficient and quality capital in our banks and do not back away from increased capital expectations. As matter of fact, Kentucky banks have an

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established record of strong performance and capitalization, as reflected by the statistical information gathered by both the Federal Reserve Board and the Federal Deposit Insurance Corporation. Further, the strength of Kentucky banks is also reflected in the fact that there have been no Kentucky bank failures in more than 20 years. (Note: One bank in Kentucky failed during this most recent financial crisis, but it was affiliated with an Indiana bank and had transferred its charter to Kentucky just prior to failing).

Kentucky banks are present and involved in each of Kentucky's 120 counties, which are often rural and sparsely populated. Kentucky community banks provide a unique service in these communities, often as the very cornerstone of strength and viability of the communities. Kentucky banks serve the financial needs of each community, with a sense of commitment to the success of each. The nature and characteristics of the very communities they serve can often result in new capital challenges that larger, more complex institutions do not experience. But, through established commitment, Kentucky banks have made it work. This story of strength and responsibility demonstrated by Kentucky banks is threatened by the proposed arbitrary application of Basel III to institutions and transactions for which it was not designed.

Basel III was drafted to address a very specific segment of the financial industry. It was specifically crafted to apply to internationally active, very large banks whose highly leveraged activities could risk a depletion of capital and panic in the international financial markets. There is no evidence that the application of Basel III was ever considered for traditional community banks and it makes no sense to apply such a complicated and specifically targeted capital analysis and calculation to traditional community banks. Application of these Basel III rules and calculations to community banks will artificially create the need for increased minimum levels of capital and reduce categories of acceptable sources of capital at a time when capital is very difficult to come by.

Community banks operate on a relationship-based business model which allows them to use common sense approaches to manage risk. Community banks are typically well capitalized and there are current systems in place to require additional capital for those that are not. As a matter of fact, Federal banking regulators currently have authority to require additional capital, making the artificial requirements of Basel III unnecessary.

The proposed Basel III rules use complex, new calculations, requiring the collection and reporting of new information by traditional, community banks already overburdened with new compliance obligations. Additional compliance alone is not a sufficient reason to avoid a proposed regulation. But increased compliance burden, arbitrary application, and no evidence of needed additional protection are sufficient reasons to reject such a proposal.

Community banks are important to the overall economic viability of the financial markets in our cities, towns and communities. Basel III proposed rules, if applied to a segment of the financial services industry for which it was never intended or designed, will have undesirable and unintended consequences on community banks, which could ultimately result in the loss of many community banks. For these reasons, we respectfully request that you consider the intended purpose of the Basel III rules and consider the consequences to community banks if the rules are finalized as written. The Basel III rules should be withdrawn and if reissued include an exemption for Community Banks.

Sincerely,

Ballard W. Cassady, Jr
President and CEO
Kentucky Bankers Association

David P. Heintzman
Chairman
Kentucky Bankers Association

Charles Vice
Commissioner
Kentucky Department of Financial Institutions