From: Dan Thompson <Thompson@successbank.net>
Sent: Friday, October 05, 2012 3:48 PM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Basel III will rapidly accelerate the disapearance of community banks. Basel III was designed to apply to the largest, internationally active, banks and not community banks. Community banks did not engage in the highly leveraged activiites that severely depleted capital levels of the largest banks and created panic in the financial markets. Community banks are the heart of small communities all across the U.S. Find a successful small community and you will also find a community bank with a high loan-to-deposit ratio providing the capital that is the life-blood required to sustain these communities. Community banks cannot afford to 'cherry-pick' the best customers in a community … we have to serve the entire community because our future existence is tied to the growth of the communities we serve. We cherish the relationships with our customers because there is no 'replacement pool' from which we can draw new customers. The largest banks operate purely on transaction volume where customer relationships must be profitable on a very short-term basis (usually monthly) … they will not invest in a long-term customer relationship.

The new risk weights are destructive for small communities and will have a devastating affect on low-to-moderate income home loans. Community banks make many small real estate loans that are not marketable, or the customer and/or property do not qualify, for GSE purchased loans. Many of these loans we label as "fixer-ups" which begin as high loan-to-value when made, but the purchaser then invests their own money and labor in major improvements and repairs that impact the property value and owner's equity in a major, positive way. Re-appraisal of these properties is a cost-prohibitive burden to the customer and the bank. Higher loan-to-value loans are predominately low-to-moderate-income consumers. The affect of Basel III risk weights will be to eliminate access to, or make unafordable, home loans to LMI consumers as the capital requirements for these loans will be doubled. Community banks will be forced to write only consumer real estate loans that qualify for GSE purchase.

The Basel III risk weights will also force community banks to take on substantially more interest rate risk in their asset-liability management. Balloon loans are an effective IRR tool for small community banks. Community banks will be forced to originate only 15 or 30 year mortgages with durations that will make their balance sheets more sensitive to changes in long-term interest rates.

Additionally, Imposing distribution prohibitions on community banks with a Subchapter S corporate structure conflicts with the requirement that shareholders pay income taxes on earned income. Shareholders require distributions to pay the imposed Internal Revenue Code liability for taxes on the bank's income.

Basel III needs to be scratched completely for small community banks. While this size threshold is arguable in terms of the proper asset size for exemption, it is very easy to see that community banks under $1 billion in Assets should be exempt due to the nature of their business in small communities and the lack of complexity in their balance sheets.

Sincerely,

Dan Thompson, President
Success BANK