October 5, 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, DC 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 Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. As a community banker, I am deeply troubled by the Basel III proposals. The proposed risk weight framework is too complicated for a bank organization of our size. Our systems do not track and report loan to value ratios for loans. It would take countless hours and a large investment to facilitate tracking of loan to value ratios for mortgage loans. Our bank only employs 28 people including full time and part time employees. We would not be able to absorb the compliance burden without prohibitive costs and would likely be forced to stop making residential loans. Due to interest rate risks, our residential loans are typically balloon loans which, will be penalized under the proposed risk weightings—resulting in further burdens on our bank. I strongly believe that community banks should be allowed to stay with the current Basel I risk weight framework for residential loans. If not, residential lending in our area will likely dry up.

Our preliminary modeling appears to show that our capital levels will be sufficient under the proposals, however, I am concerned that if conditions change we will be unable to build capital quickly enough. This would be especially true if we consider acquiring a bank branch. As a small bank (< $100 million in assets) we do not have access to the capital markets like the big banks. Our capital is accumulated over time through retained earnings. I feel strongly that community banks should be exempt from the proposed capital conservation buffers.

Sincerely,

Chad Porter
Chief Financial Officer
Bank of Monticello