October 10, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
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 NW
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 Board Director of a Community Bank, I think it is imperative that community banks be allowed to continue using the current Basel I framework for computing capital requirements. For it was not the small community banks that engaged in the high risk activities that severely depleted capital levels of the largest banks and created panic in the financial markets. Why should the community banks have to suffer the consequences when they were not part of the problem?

Basel III was designed to apply to the largest, internationally active, banks and not community banks. It is my belief that community banks operate on a relationship driven business model that is specifically designed to serve customers in their communities on a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. Large banks operate on transaction volume and pay little attention to the customer relationships. This difference is the reason why tougher capital standards should be placed exclusively on the large banks. Basel III will allow large banks to better manage the ability to absorb losses. The strict requirements do not fit the model of the community banks nor do they provide any benefit.

In fact, the risk weight framework proposed under Basel III penalizes community banks and jeopardizes the housing recovery. If the risk weights for residential balloon loans, interest only loans and second liens are increased, community banks will be penalized because they can no longer offer customers an array of financing options for residential property. 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. This will force many community banks to either exit the residential loan market entirely or only originate those loans that can be sold to the GSE. Second liens will either become more expensive for borrowers or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures. This is not good for the customer, the stakeholder, the shareholder or the financial marketplace. Basel III is too complicated and is a regulatory burden. Furthermore, community banks would be forced to make significant software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine the proper risk weight categories for mortgages. Is this what you had intended when proposing the Basel III framework? Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans.

If Basel III is implemented many community banks will be forced to build additional capital balances to meet the minimum capital requirements with the buffers in place. How can community banks build capital when they will be forced to spend money to adhere to these onerous regulatory burdens? The only option community banks will have to increase capital is through accumulation of retained earnings over time. Due to the current low interest rate environment, community bank profitability has diminished further hampering their ability to grow capital. The implementation of the capital conservation buffers will be extremely difficult to achieve, if they are even achievable.

If you implement the proposed ten year phase-out of the tier one treatment of instruments like trust preferred securities that Basel III requires, community banks will have a difficult time replacing this reliable source of capital. I believe it was the intent of the Collins amendment of the Dodd-Frank Act to permanently grandfather tier one treatment of the trust preferred securities issued by bank holding companies between $500 million and $15 billion. Phasing out this important source of capital would be a particular burden for many privately-held banks and bank holding companies that are facing greatly reduced alternatives in raising capital, which I believe most are. While I understand the fact that trust preferred securities issued by bank holding companies under $500 million would not be impacted by the proposal, consistent with the Collins Amendment, I urge the banking regulators to continue the current tier one treatment of the trust preferred securities issued by those bank holding companies with consolidated assets between $500 million and $15 billion in assets.

In conclusion, I want to thank you again for taking the time to read this letter and consider my opinion. With the reasons mentioned above, <u>I strongly object to Basel III</u> and think it would diminish the community banking markets. If you would like to discuss this matter further, please do not hesitate to contact me.

Sincerely,

Randy Rognlin

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