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Independent Community Banks

October 12, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 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 Proposed Rule Making

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] 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.

There are concerns with the use of a capital conservation buffer as an additional defense against risk and volatility. This buffer would be in addition to proposed adequately capitalized measures, but it is still subject to agencies supervisory authority and can be adjusted if deemed necessary. The restrictions that are available for the regulatory bodies to use are also troublesome and could result in the inability of banks to raise additional capital in times when it would be most crucial and also to retain talented employees during difficult times. The conservation buffer adds further uncertainty and complexity to an already complex capital measurement system.

Over the course of the last several years, we have seen record highs and record lows when it comes to determining value on anything, but no other area has hit harder than real estate. By adding the requirement that risk weightings be based on loan to value measures, it creates speculation and volatility. It has the potential to penalize banks over short term value swings and doesn't take into

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

account any payment ability on behalf of the borrower. The last few years alone have shown us how much loan to value measurements can fluctuate, so to exacerbate the situation by requiring risk weighting of loan to value measurements without regard to borrower position or ability seems foolish. Also requiring risk weight categories of greater than 100% on certain assets will greatly restrict lending and penalize organization's that are already in a stressed position. Implementation of the rules on existing portfolios will also prove burdensome and difficult to administer, requiring additional staffing and costs, potentially increase the stress on an organization. The overall complexity and subjective nature of the loan to value risk weighting and the overall difficulty to administer would have an adverse effect on lending within communities and restrict the capital structure of an organization.

The use of Accumulated Other Comprehensive Income as part of regulatory capital would increase volatility and short term benefits and crises in a capital structure. While BASEL III appears to try to focus on retaining core capital elements as part of the capital structure, it would seem contrary to include as part of the core measure something that is prone to quick and short term fluctuation. This could result in an unnecessary strain on an organization's capital structure by increasing market fluctuations not associated with core capital elements. This alone is extremely harmful to the long term planning and viability of an organization, but it is similarly problematic to those entities that receive funding from banks, such as local, state, and even federal agencies simply because banks would be more cautious of the types of agencies they purchase securities from due to possible interest rate fluctuations.

Although there are several other proposed rule making guidelines outlined in the BASEL III documents, these are the ones that I think pose the greatest risk to the banking industry. While I am not opposed to higher standard capital requirements for banks to mitigate losses and risk, they should reduce the complexity in implementation. We are all aware that one of the issues that helped to create the recession we've just experienced was the complexity in the mortgage industry and in regulation in general. However, the proposed standards that I have listed above appear more subjective in nature and less straight forward, which would add even more stress, complexity, and volatility to capital structures.

I want to again thank you for the time spent reading all of these comments. I only hope that they make a difference in the future rule making as it relates to the banking industry.

Sincerely,

C. Robert (Bob) Hall

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Director
Lincoln County Bancorp, Inc.