July 23, 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[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance.

As executive officers and directors of a five year old middle market community bank in Nashville, TN, we agree that strong capital is vital to a bank's ultimate success and ability to lend in the communities that it serves. During our capital raise in early 2007, our bank was successful in raising $75 million and was one of the largest capital raises in the Southeast at that time. Since then we have grown to $671 million in assets and as of last summer, rank 13th in deposit market share for our MSA. We have weathered through the financial crisis, economic downturn and historically low interest rate environment and watched as most of our clients and community did the same.

The community banking system did not engage in many of the risky practices that lead to the financial crisis, nor do they offer the complex financial products that regulations are attempting to better oversee. Many do not have easy access to new capital and the low interest rates and new limits on consumer fees are making it extremely difficult to create their own capital.

After reviewing the Basel III proposals, we are concerned that our community bank will be held to a standard that is meant for those financial institutions that helped to create and perpetuate the financial crisis. Overall, the rules seem to be far too complicated and detailed, making it expensive to apply and difficult for investors and others to evaluate the capital condition of banks. The details, however, need

[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.*

avenue bank SM
111 Tenth Avenue South, Suite 400 • Nashville, Tennessee 37203
avenuenashville.com

to be fully and carefully discussed, with no provisions of the proposal excluded from reconsideration, particularly in light of whether they are good for the U.S. economy. The U.S. banking industry begins this discussion from a position of historically high capital levels. Adequate capital is essential, while excess capital requirements contract economic activity; more money set aside to do the same amount of economic work. These standards must not be one-size fits all. The final rules need to be calibrated and adjusted according to size, complexity, and risk.

Our biggest issue of concern is allowing unrealized gains and losses flowing through capital.

As the regulators move forward with a final rule to implement the Basel III capital framework in the United States, they should not remove the existing filter of unrealized gains and losses on financial instruments (the "AOCI Filter") from the regulatory capital calculation.

Removal of the AOCI Filter would:

- force the recognition in capital ratios of unrealized gains and losses that are temporary in nature and result principally from movements in interest rates as opposed to changes in credit risks, that are unlikely to be realized and that typically result in no effect on the banking organization (therefore raising or lowering regulatory capital regardless of any real change in risk);
- force banks to maintain ratios of both common equity Tier 1 ("**CET1**") to risk-weighted assets and Tier 1 capital to risk-weighted assets substantially above the levels that would otherwise apply in order to avoid the sanctions applicable to banks that fall into the capital conservation buffer; and
- introduce **substantial volatility** into CET1 and Tier 1 capital as measures of capital.

Removal of the AOCI Filter inevitably will affect banks' behavior. The behavioral changes will become more pronounced as the date for implementation of Basel III in the United States approaches, and they will have collateral impacts that are important not only to the affected banks, but also to the economy more broadly. If the AOCI Filter is removed, it is likely that:

- Banks will limit their investments in longer duration assets, including 30-year Fannie Mae and Freddie Mac mortgage-backed securities and debentures.
- Banks will shorten the maturities of debt instruments in their securities portfolios including U.S. Treasury securities to reduce the impact on regulatory capital of unrealized gains and losses (both positive and negative) resulting from changes in interest rates.
- Some banks will shy away from municipal debt offerings in particular, because they tend to be longer dated, and favor a shorter-term instruments. This likely will have the effect of increasing borrowing costs from municipalities and reducing the liquidity of municipal debt markets.

We appreciate your consideration and thoughtful review of the issues facing the community bank business and those they serve.

Sincerely,

Ronald L. Samuels
Chairman and CEO

G. Kent Cleaver
President and Chief Operating Officer

Marty Dickens
Lead Director

Barbara J. Zipperian
Chief Financial Officer