October 15, 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 issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

First National Bank in Howell (FNB) is a 121 year old $300 million community bank headquartered in Howell, Michigan. All of our branch offices are located in Livingston County Michigan and FNB has the number one deposit market share in the county – over 90% of our loan outstandings are to Livingston County individuals and businesses.

Livingston County has been the fastest growing county in the state and is projected to continue to be among the fastest growing counties in Michigan. FNB is the only community banking organization headquartered in the county. Competition primarily consists of super-regional and nationwide banking organizations that serve larger businesses well but have not demonstrated the ability to successfully serve the needs of smaller and medium size business that are crucial to continued economic recovery and success.

As a Director of FNB (and an individual with a substantial stake in the prosperity of the bank's market place), I urge you to reconsider community bank imposition of punitive and cumbersome Basel III provisions that were intended for systemically important financial institutions.

[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.*

Implementation of the proposed Basel III standards inappropriately harm and penalize community banks that should not be subject to complexities of capital requirements that were developed by a body of regulators based in Basel, Switzerland and intended for only the largest, internationally active banks. In conjunction with other existing and proposed regulations, it jeopardizes the viability of the community banking model.

Imposition of Basel III standards on smaller financial institutions would hinder community bank franchise viability, restrict small and medium business economic support and impede overall economic recovery in numerous ways, including the following:

- Forces community bank shareholders to seek alternatives to further investment as new regulatory burden hampers growth in lending
- Increases loan interest rates and fees and decreases deposit rates for individuals and small business as community banks need to maintain competitive equity returns
- Increasingly complex and increased capital risk weightings on residential mortgage lending will impair home financing by raising borrowing rates and limiting borrower access to financing
- Arbitrary imposition of 150 to 200 risk weights on second residential mortgage liens will increase interest rates paid by customers regardless if loans are prudently underwritten
- Inclusion of accumulated other comprehensive income introduces volatility in capital driven by interest rates and external credit spreads and will discourage the holding of investment securities which will have the general effect of reducing on balance sheet liquidity and depress market values for these securities
- Imposition of higher risk weights for nonperforming loans only duplicates the purpose of the allowance for loan losses and are not warranted in a community banking environment
- The limited opportunities to build capital through access to capital markets will prevent community banks from growth and lending opportunities as they must rapidly build capital to meet and maintain capital conservation buffers that were drafted for systemically critical banking institutions
- The allowance for loan loss inclusion in capital should not be capped at 1.25% of assets and a portion should be included in tier 1 capital since it represents the first line of defense against capital-absorbing loss

This proposal is unreasonable, and dangerous for the financial institutions that serve smaller communities such as those found in Livingston County. Community banks maintain the banking industry's highest capital levels and operate a relationship-based model that recognizes the unique needs of their customers. Imposing complex capital regulations on them will limit the resources they can use to lend and reinvest in their communities, threatening our recovery.

If we want to prevent another Wall Street fiasco, we should not force community banks out of business and leave their customers in the hands of the megabanks. Without a thriving community banking industry, when it comes to our financial options, we won't be that far from Wall Street at all.

Thank you for the opportunity to express my concern and opposition.

Timothy H Congar