October 17, 2012

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

Dear Mr. Feldman:

Below you will find several bullet points that I feel are very important in how the Basel III act will affect community banks. I hope you take the time to review what I feel is very important.

General

- In conjunction with Dodd Frank and the proposed regulations, Basel III jeopardizes the viability of the community banks to exist. If Dodd Frank and Basel III continue to be implemented they will continue to place even more pressure on community banks, who are apparently "To Little Too Survive" as the regulators have failed to address "The Too Big to Fail".
- Community bank shareholders will be forced to seek alternative ways to invest under new regulatory burdens that will hamper the growth of lending with limits placed on dividends and incentive bonuses, who would want to own small bank stock or want to work in management in small banks.
- At the same time the Basel III act will be implemented when our community banks will be attempting to recover from financial crises, recession and depressed real estate values.
- Due to the fact that community banks cannot access capital markets, we will need years to build capital through retained earnings.

Accumulated Other Comprehensive Income (AOCI)

- Inclusion of AOCI introduces volatility in capital driven by interest rates and external credit spreads and will make it difficult for community banks to implement a capital planning program. And since interest rates are likely to go higher we will see significant reductions in capital.
- Community banks will have to hold additional capital to neutralize the effect of the increased volatility.

Risk Weights

- If risk weights are raised on residential loans it will damage home financing by raising borrowing rates and will give the borrowers limited access to financing.
- While community banks are trying to alleviate interest rate risk, we will be penalized if risk weights for balloon mortgages are raised.
- Higher risk weights for nonperforming loans only duplicates the purpose of allowance for loan losses and are pro-cyclical.

Allowance for Loan and Lease Losses

- Some if not all of the allowance for loan losses should be included in tier 1 capital since it represents the first line of defense against capital-absorbing loss.

Implementation Timeline

- The timeline needs to be modified to help community banks meet the minimum capital requirements.
- Limited opportunites to build capital will prevent community banks for rapidly meeting and maintaining conservation buffers.

Attached are our Basel III calculations. If Basel III continues I fear that we as well as other community banks will not be in existence because of over regulations that continue to choke the life out of our small banks. Thank you for your consideration in this matter.

Sincerely,

Grady L. Bedwell
Chairman and CEO
Merchants Bank