

GRANDVIEW BANK

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:

The proposed Basel III capital standards would have a pronounced negative impact on community banks like mine. It was not community banks that traded in complex derivatives or made mortgage loans to borrowers who lacked repayment ability. The Base III standards should be applied to banks that present systemic threats, not a community bank like mine that simply accepts deposits locally and utilizes this funding to provide credit to consumers and small businesses in the markets that we serve.

Among the components of the Basel III standards is the inclusion of Accumulated Other Comprehensive Income ("AOCI") in Tier I Capital. Interest rates are at historical lows, meaning they can only increase, causing significant reductions in capital. Can you imagine the number of banks that theoretically may have failed in the early 1980s simply due to paper losses? We should continue the practice of taking the adjustment to capital at the time that a security is sold rather than promoting capital volatility through the inclusion of AOCI in Tier I Capital.

Our bank has approximately \$14 million in owner-occupied residential mortgages, representing 16% of total loans. These are balloon loans, maturing in three years with 20 year amortizations. We have consistently underwritten these mortgages based on acceptable debt ratios, credit bureau scores, and a proper margin of equity in the property being financed. Our loss ratio has been negligible. This product has served the bank well and is popular among our customers. With the proposed increase in the risk weighting of these assets, it is likely that we will no longer offer this product. The increased risk weighting relative to these type loans simply will not allow for an adequate return on equity.

While there are other aspects of the Basel III proposal that are distasteful, the AOCI and increased risk weightings on residential mortgages are the most objectionable where this bank is concerned

The Basel III proposal would enervate the community banking business model. Objective ratiocination would suggest that small, non-complex banks should be exempted from the Basel III proposed standards.

Your consideration is appreciated.

Sincerely yours,



Robert Stewart
Chairman, President, and CEO