INDUSTRIAL BANK

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Via Electronic Submission

October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Re: Basel III Capital Proposals

Ladies and Gentlemen:

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

The Industrial Bank is a $370 million, seventy-eight year old full service community bank based in Washington, D.C. and Prince George's County, Maryland. The bank has a rich history of strong community involvement, profitability, and sound financial condition. It operates from eight branches located in underserved communities serving disadvantaged populations, while lending a substantial portion of its assets in low and moderate income neighborhoods. Industrial is a CDFI and a MDI.

Like other community banks across the country, over the last few years, Industrial has been burdened by a tsunami of new legislation and new regulations, placed on top of an already over regulated industry. The new Basel III proposed rules, if not substantially amended will only make it more difficult for Industrial to serve its community and lend in targeted neighborhoods. They will also inhibit the bank from generating the capital necessary to fund the growth needed over the next few years to absorb the burgeoning compliance costs and lost revenue resulting from recently enacted regulations.

As a MDI and a privately held community bank, Industrial finds it difficult, if not impossible to raise capital outside of reinvested earnings, and if implemented, BASEL III, will further increase the required amount of capital the bank must hold. The current regulatory capital requirements pose a challenge for Industrial, and therefore, the proposed changes would make meeting capital requirements significantly more difficult.

The proposed rules apply to all banks in the United States across the board, and should only apply to the largest of institutions, particularly to those that have international operations and pose global risk. **Community banks, MDIs and CDFIs should be exempted from the new rules**, and should be allowed to continue operating safely under the current Basel regime.

If the new rules are implemented in their current form, community banks all across the country will be forced to consolidate or close, thereby decreasing competition to the consumers' disadvantage. The proposed rules jeopardize the very community banking model that operates in this country, which is responsible for 40% of all small business loans. Imposing the new rules in current form would have a major long term impact on this substantial economic engine. For MDIs/CDFIs like Industrial that serve low and moderate income individuals that reside in the hardest hit urban areas, the impact to services and credit could be devastating.

The proposal revises many of the current risk weights; particularly for certain types of mortgage products; Industrial is an active participant in providing these products to individuals in its community. Increasing risk weights on certain second mortgage products to up to 200% not only duplicates the efforts taken by management with respect to the ALLL, but will have the effect increasing credit costs to many of Industrial's customers, many of whom will not be able to afford the increase.

The timing and aggressiveness of the implementation of the proposed rules couldn't be worse. The country is still climbing slowly out of a "recession", and the new rules will only add to slow the recovery. Even worse, real estate values are still very depressed, especially in the inner cities. The implementation phase-in period is too aggressive for community banks, MDI's/CDFI's like Industrial to manage; not to mention the complexity of the rules and the monitoring that is required. These rules will be added to hundreds, if not thousands of existing rules already in place. Industrial estimates that over the next few years the impact to earnings of new compliance costs and lost revenue due to recent regulatory and legislative changes will be $300k. This is something that Industrial and other community banks simply cannot afford.

The proposal related to Accumulated Other comprehensive Income increases the volatility of capital and makes capital planning more uncertain and unpredictable. Community banks cannot hedge the impact of changes in interest rates and will be forced to hold additional capital to compensate for the increased volatility. Given the low interest rate environment, the impact of this provision over the next few years will certainly decrease the amount of capital held by

Industrial. Given the size of Industrial's investment portfolio, the impact could be easily be $5 million or 15% of total capital in a few short years.

The Industrial Bank board and management support the Agencies' efforts to improve the level and quality of minimum required capital, however, we urge that the Agencies pursue a more simplistic proposal which fully considers less complex community based institutions. Further, the Agencies should ensure that its implementation not increase the volatility of capital due to changes in rates and therefore, make the planning process more predictable.

Best Regards,

B. Doyle Mitchell, Jr.
President & CEO