EQUAL HOUSING LENDER

The Rockhold, Brown & Company Bank

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October 20, 2012

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

Thomas Curry
Office of the Comptroller of the Currency
250 E Street S.W.
Mail Stop 2-3
Washington DC 20219

Jennifer Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave N.W.
Washington DC 20551

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the proposed rulemaking regarding the Basil III proposals that were recently approved by your agencies.

The strength and stability of our banking system is essential for our nation, states, and communities to foster growth, prosperity, and to weather downturns in the business cycles. I understand the desire to increase minimum capital standards; however, I have serious concerns regarding the proposals related to Basil III that you have submitted for comment.

The Rockhold, Brown & Company Bank (Bank) has been in existence since 1867. We currently serve communities in Ross, Highland, and Pike counties which are located in south-central Ohio. In 2009 we opened our first branch located approximately 12 miles east of Hillsboro, Ohio. Our total assets approximate $35.5 million and we service an additional $4.8 million of residential mortgages that we have originated and sold to Fannie Mae. We offer retail banking services to households and businesses within our markets.

The market we serve is tied closely with logging and farming operations located in the western part of Appalachia. We are currently celebrating the Fall Festival of the Leaves in our community; many come from miles around to enjoy the natural beauty of this region of Ohio. However, many find life difficult in this area as they cope with high unemployment and few opportunities to obtain high-paying jobs. Many households living within our banks target market live in poverty. We've been one of the few banks that have extended credit to purchase mobile homes and small parcels of land which help to meet the housing needs of our low to moderate income families. During the recent financial crisis we provided credit to others that could not obtain credit from our competition. We too have suffered during this past recession as we have experienced losses and above-peer net charge-offs. Our other real estate owned (OREO) portfolio has also greatly contributed to the above-average noninterest expense of the Bank in terms of the provision for future losses, taxes, insurance, and maintenance. We have coped with depressed property values and a sluggish real estate market since 2008. We are pleased that the level of delinquent and non-performing loans has decreased as of the end of the third quarter. Our nonperforming loan and OREO portfolios are reviewed quarterly and provisions are made for future losses. I admit that we struggled during the past three years of the Great Recession but we are now seeing progress being made – such was accomplished without financial assistance from the government. Despite the difficulties we've endured, it is our desire to be able to continue our role in providing business opportunity and leadership for the communities we serve. Unlike the large multi-state banking organizations, our local markets are the only customers we have. We want to ensure that the new capital roles do not hinder our ability to provide products and services to our clientele or to properly manage other risks within our institution. With the foregoing in mind, I would like to express my following concerns:

I. **Increased Weighting for Mortgage Loans:**
A significant portion of our lending activity is providing residential mortgage loans to our customers. The Basel III proposal may result in us being forced to reduce the volume of mortgage loans we can originate. I do not believe that increasing risk weightings of residential mortgages to a higher level than for other types of loans is justified -- such will adversely impact most community banks.

The change of risk weightings from asset classes to individual loans will create an administrative challenge and significant cost for community banks. I believe that existing regulatory and accounting rules already provide sufficient guidance to ensure that the ALLL adequately provides for future losses. The increase in risk weighting on mortgage loans will add to our bank's overhead as such weightings will require an additional individual to continually review and update the loan portfolio. Currently, loans that are risk-weighted have already been criticized and valued based upon the risk. My fear is the Basil III proposal will result in additional capital requirements that are unnecessary and will cause residential mortgage loan interest rates and loan fees to rise as banks will need to find ways to recoup the cost of compliance.

II. **Representations and Warranties on 1-4 Which Have Been Sold Into the Secondary Market:**
I am concerned about existing representations and warranties pertaining to loans sold on the secondary market that will cause our Bank to have to set aside capital. Our Bank started to originate loans sold to the secondary market in 2005. Through this avenue, we have assisted many households in obtaining low cost, fixed rate loans. The proposed rule will force us and other community banks to cease or limit this activity which is employed to manage interest rate and liquidity risks as well as reduce the availability of credit to potential homeowners.

III. **Proposal to Increase Risk Weights on Delinquent Loans:**
Like many other financial institutions in our state, we have experienced a significant increase in our delinquencies during the past four years. We analyze our asset classification reports and our ALLL throughout the quarter; however, additional time is allocated to ensure the data is properly reported on the call report. At present, the regulatory and accounting guidance is already specific – the new proposal has the effect of requiring us to set aside capital twice.

If this proposal is implemented, we will be forced to move delinquent loans off our balance sheet more rapidly which will reduce our efforts to work with borrowers as we have been encouraged to do.

IV. Requirement that Gains and Losses on Available-for-Sale Securities Must Flow to Regulatory Capital:
Volatility in interest rates could present a circumstance where an increase in interest rates would decrease regulatory capital to the extent a bank's capital management plan would need to be implemented. This could cause the Bank to reduce its lending activity to decrease its assets to meet capital ratios. If this would occur during a time when the economy is expanding, the Bank may not be able to meet the credit needs of its customers and consumers. Further limiting or reducing capital would be a threat to any economic recovery.

Our Bank uses its investment portfolio to manage liquidity, cash flows, interest rate risk, and to meet pledging requirements for public deposits. In general, we purchase US agency issues or certificates of deposit with other financial institutions in amounts that are covered by FDIC insurance. This proposed change could have the effect of encouraging banks our size to sell their available-for-sale securities or converting to hold-to-maturity securities. Such would limit an institution's ability to use securities as a tool to manage liquidity.

V. Credit Unions Are Not Subject to Basel III Rules:
In the 1930s, credit unions were granted a special tax exemption to serve customers with a "common bond" of modest means. Today, many aggressive federal credit unions have ignored their original purpose and become providers of financial services just like a bank. Not only do credit unions enjoy a special tax subsidy and exemption, they are not subject to the Community Reinvestment Act. We are one of the smallest institutions in Ohio and we pay approximately $40,000 per year to the state of Ohio for franchise taxes. In addition, we are subject to federal income taxes. We have large credit unions in Ross and Pike Counties that offer more advantageous pricing for services and products on both sides of the balance sheet – how can community banks compete or survive? And now, based upon the proposed rules, you seek to further provide credit unions with another competitive advantage by raising our capital requirements? It is not fair.

VI. The "Discretionary" Ability Given to Supervisory Authorities to Require Even More Capital Than These Newly Proposed Rules Require:
I believe that the arbitrary application of this rule can undermine openness and intention by imposing different capital requirements at similarly sized community institutions without demonstrating necessity. This provision of Basel III is unnecessary since regulators already have this authority for troubled banks.

In conclusion, the proposal as currently written will greatly impact our bank in the following ways:

This proposal may significantly increase the amount of capital we are required to hold. This could happen without any change in the Bank's risk profile.

2. This proposal will result in significant cost and administrative changes due to its complexity. Very few community banks possess the manpower or software necessary to compile and analyze this data. These cost increases will have a negative impact on capital through reduced profits.

3. This proposal reduces our ability to manage all areas of risk. The proposed rules are isolating one component risk of the bank to the detriment of other risks; i.e., no risk exists in isolation and the bank cannot be managed properly by focusing on only one area of risk.

I understand the desire to increase the level of capitalization of the banking industry; however, this proposal has a significant negative impact on the community banks in this country. Basel III will reduce the ability of households and small businesses to have access to capital. I strongly encourage you to consider withdrawing the proposed rule or granting exemptions for small community banks similar to the exemption granted to credit unions.

Sincerely,

William M. Hubbard

William M. Hubbard,
President & CEO

cc: Senator Sherrod Brown
Senator Rob Portman
US Representative Bob Gibbs
Mr. Michael Van Buskirk, Ohio Bankers League
Mr. Michael Adelman, Ohio Bankers League