October 11, 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.

The Basel III proposals should not be applicable to community banks such as mine. When someone is speeding on the interstate, the police don't give everyone a ticket just because they are on the same road. The ticket is reserved for the one who was speeding. This should be the case with Basel III as well. Community banks were not involved in the risky activities that led directly to the financial crisis, and we should not be handed burdensome regulations designed for those large banks that engaged in those activities. Community bankers know our customers, and we know our risks. We engage in relationship banking. This model has worked for decades (over 120 years at my institution) and should not be impacted by regulations designed to halt excessively risky activity.

I take particular exception to the inclusion of Accumulated Other Comprehensive Income (AOCI) in the capital calculation. While in recent times, that would likely have made the capital levels look wonderful for most institutions, rates are at historic lows with not much downward movement possible. Rates will eventually go up, and regression to the mean would indicate that they will go up significantly over time. Many banks like mine have been flush with liquidity recently. Our investment portfolio has nearly doubled over the last year as loan demand has been low and deposits have increased dramatically. The investment portfolio currently carries a paper gain of $700,000. That would make capital levels look stronger than they already do.

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[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.*

However, a 300 basis point shift in rates would turn that $700,000 paper gain into a $5.4 Million paper loss. Allowing for AOCI at present would increase our Tier One Capital Ratio by approximately 0.6%. However, upon a 300 basis point increase in rates, our Tier One Capital Ratio would fall by over 4.4%. This kind of volatility in Capital is unwarranted and unneeded in Community Banks. Community banks generally do not have the expertise to hedge this kind of risk. We stick to actual banking...taking deposits and making loans. Applying Basel III to Community Banks would force many of us into areas of operation for which we are not trained and in which we do not wish to operate, such as rate swaps, hedging, and futures contracts. These activities have their own sets of risks. Implementing Basel III would likely take many banks from measuring risks that they know and understand to taking risks that are much more complex and harder to manage. Is that really what regulators want Community Banks to do?

I also take issue with the Capital Conservation Buffers. Large banks have access to capital markets that Community Banks do not have. At Community Banks, pretty much the only way to generate capital is through retained earnings. Capital increases occur slowly and over many years. When earnings are down as they have been in recent years due to the historically low interest rate environment, this occurs even more slowly. Again, I remind you that Community Banks did not engage in the risky activities that caused the financial crisis, and we should not bear the same brunt of new regulations.

In summary, there is really no part of Basel III that should apply to Community Banks. Applying Basel III to Community Banks would create potentially wild swings in Tier One Capital Ratios; create additional expenses as Community Banks would be forced to upgrade software, hardware, and personnel; lower retained earnings as a result of these additional expenses; lower Tier One Capital Ratios going forward as the new expenses cut into earnings; lower CAMEL ratings as earnings deteriorate due to these new expenses; force some Community Banks to abandon markets or lines of business as an alternative to trying to comply with the Basel III requirements; force some Community Banks to increase fees or rates to make up for increased expenses.

Respectfully,

Joshua A. Weekley
Chief Financial Officer
West Union Bank