NationalBank
AND TRUST COMPANY

Focused on You.

John J. Limbert
President and CEO

October 22, 2012

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

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

Robert E. Feldman, Executive Secretary
Attn: Comments/Legal ESS
FDIC
550 17th St. NW
Washington, DC 20429

Submitted to all Addressees via:
Federal eRulemaking Portal and Email

Re: Basel III Capital Proposals

Dear Madam and Gentlemen:

Thank you for the opportunity to respond on the recently approved Basel III Capital standards.

The proposed standards, on the heels of Dodd/Frank, in conjunction with Sarbanes/Oxley and with no resolution to Too Big To Fail, would present an excessive and financially devastating burden to the nation's community banks and a point in time when community banks are being asked to provide more leadership (read funding and philanthropic support) within their respective communities. I am respectfully asking for your reversal of the Basel III proposals.

National Bank and Trust (NB&T) is an almost 150 year old community bank serving 6 counties with 22 offices in Southwestern Ohio. Our asset size of $670 million and we service another $375 million in off balance sheet assets comprised of $216 million in Trust Assets, Public Agency money market accounts, totaling $37 million, $71 million in client brokerage balances and $49 million in mortgage loans that we originated, sold into the nation's secondary market and provide servicing to. A total of over $1 billion in footings.

We took no TARP money. We are not under any form of regulatory supervision. We exceed all current capital standards. We are a publicly traded company, paying our shareholders over $4 million per year in dividends.

Perhaps you heard of Wilmington Ohio in 2008 when Southwest Ohio's largest employer, DHL, announced they were going to close their Wilmington based national package sort operation and eliminate over 8,000 jobs. Those jobs are now gone.

The National Bank and Trust Company | 48 N. South Street, P.O. Box 711, Wilmington, Ohio 45177
Phone 937.382.1441 | Fax 937.382.4385 | Email nbt@nbtdirect.com | www.nbtdirect.com

And those employees came from all over Southwest Ohio –Dayton, Cincinnati, Batavia, New Vienna, Milford, Lebanon, Waynesville, Hillsboro, Sabina, Georgetown, Owensville, Mason, Blanchester, and on and on.

Over the last four years, and for an undetermined period of time into the future, we have worked with families, small businesses, food banks, charities etc, etc, to keep them in their homes, food on the table, dignity in their lives, jobs for their employees.

The onerous requirements of Basel III would irreparably harm my bank and thousands of community banks who also provide similar leadership and support in their respective communities. How would Basel III create this hopefully unintended consequence?

Consider the following:

Accumulated Other Comprehensive Income (AOCI) Proposal
The inclusion of AOCI in regulatory capital would create significant volatility and inconsistency in reporting capital ratios while simultaneously ignoring other parts of our balance sheet. Virtually all community banks use the investment portfolio to provide liquidity and to address interest rate risk. Under the Basel III proposal, this use of the investment portfolio is penalized.

For example, our economic value of equity (EVE) which already has a regulatory reporting requirement, We are currently in a period of historically low interest rates. Rates can only go up from here and when they inevitably do our EVE actually increases due to the value of our core deposits and loan portfolio balances increasing to offset the decrease in value of our investment portfolio. When rates fall, our investment portfolio value increases and helps offset the decrease in value of these same loans and deposits.

Left unchanged Basel III will create a one-sided volatility and our only option will be to either shorten the duration of our investments or to change our securities to a Hold-to-Maturity classification. The first scenario creates an earnings penalty; the second a liquidity penalty. "We're damned if we do and damned if we don't!"

Increased in Risk Weighting of Assets
This proposal has the consequence of creating two major challenges for community banks, the burden of even assigning weights to a portfolio of loans coupled with the increase in operating expenses to perform this measurement and secondly, the double impact of requiring more capital while we simultaneously add to our existing Allowance for Loan and Lease Losses when a problem loan is identified.

Community banks did not create the mortgage debacle. Yes, we have had to foreclose on mortgage loans, but not until we exhausted all avenues to work with the borrower. We log the required sheriff's sale notices. Locally based financial institutions average 3-5% of the total filings while the Deutsche Banks, BofA, Wells Fargo, GMAC (Ally Bank), PNC (think too big to fail) dominate the weekly filings.

We know our clients, know what their properties are worth, and know when they have financial problems because we actually talk to them. They can come to an office and tell us their problem, even if we were to sell the loan. Try getting a Deutsche Bank customer in touch with his or her lender!

Perhaps a larger and ongoing penalty is the mere determination of the risk to be associated with a specific loan. Current loan servicing systems do not have this in their support structure, nor would it be easily modified. LTV's are routinely not incorporated into a loan servicing model.

Trust Preferred Phase Out

Community Banks have limited access to capital markets. As a result, trust preferred debt afforded many community banks such as ours the opportunity to expand our community involvement without immediate dilution to current shareholders.

At a time when banks are seeking small business lending opportunities, eliminating trust preferred debt as a source of capital will restrict this balance sheet growth and possibly force the reduction in other balance sheet loan assets.

For example, our $680 million dollar bank currently has $10 million in Trust Preferred, and a bank tier one leverage ratio of approximately 10%. To maintain the same ratio without the trust preferred would require shrinking the balance sheet by approximately $100 million or 15%! This option would have a significant negative impact our communities, employees and shareholders.

As a constructive alternative, modify the proposal to start the phase out 10 years prior to maturity versus 10 years from now. This would permit Trust Preferred banks to initiate a better migration strategy.

Finally, and while not in Basel III is the glaring omission that credit unions are not even mentioned in this proposal (perhaps Basel Switzerland does not have credit unions?). One of our many competitors is a very aggressive federal credit union. They have long ago abandoned the "common-bond" principle that was the rational for tax exempt status they enjoy... Today this credit union is in the billions, clients on an almost national basis.

This credit union has an imbedded 25% advantage my bank due to this tax exempt status. Basel III will only make my situation weaker.

In summary, to completely understand the risk these proposed capital standards pose for community banks, they need to be considered in the context of others imposed on banks through new regulations. According to the House Financial Services Committee, there are already 7,365 pages of new regulations that I have to read, understand and educate my staff, and potentially my clients. Together, with the new capital rule, these requirements will make community banking a losing business model for some, unnecessarily encouraging further consolidation. If your overall intent is to shrink the number of financial institutions from approximately 7,500 to 500 or less than this is the path!

The current proposal needs to be withdrawn and resubmitted to recognize the reality that most banks are operating with risk profiles that do not justify either the additional capital or large additional expense in tracking assets to the degree proposed.

Alternatively, regulators should consider carving out "Bailey Brother Banks" that either present very small risk to the financial system or that have a traditional, straight forward, low risk balance sheet; or at least develop a simplified capital requirement for such institutions that will not require extensive systems and date. Banks that are not "too big to fail" need additional time to phase in any new proposed minimum capital due to their restricted access to capital markets.

Finally, examiners should not be allowed to apply these standards prior to any effective date based on a "best practices" theory. What is often a best practice for a $10 billion bank is considered poor practice at a community bank.

Sincerely,

John J. Limbert
President and CEO
National Bank & Trust Company
Wilmington Ohio

Cc: Senator Rob Portman
Senator Sherrod Brown
Congressman Michael Turner
Congressman Steve Stivers
Congressman Steve Shabut
Congresswoman Jean Schmidt
Congressman Steve Austria