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 that were recently issued for public comment by the Federal Reserve Board. There are several key elements to the Basel III proposals I would like to address.

The first element is the applicability of Basel III to community banks. Community banks should be allowed to continue using the current Basel I framework for computing their capital requirements. Basel III was designed to apply to the largest, internationally active, banks and not community banks. Imposing complex and excessive capital standards may threaten the nation's economic recovery and limit lending, investment, and credit availability in local communities.

The second element is the incorporation of accumulated other comprehensive income (AOCI) in capital calculation. The inclusion of AOCI will result in increased volatility in regulatory capital and could rapidly deplete capital levels under certain economic conditions. Both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains in most community banks investment portfolio. Because of the increased demand for government securities, the credit spreads on most investment products has tightened further increasing bond prices.

When interest rates rise, the fair values will fall causing the balance of AOCI to decline and become negative. The decline will have a direct, immediate impact on common equity, tier 1, and total capital as the unrealized losses will reduce capital balances. At my bank, for instance, if interest rates increased by 300 basis points, the investment portfolio would show a paper loss of $7.1 million pre-tax, $4.3 million after tax. The bank's tier one ratio would drop by approximately 30%.

There are tools and processes available to mitigate some the risks of capital volatility such as interest rate derivatives such as swaps, options, and futures contracts. These products require knowledge and expertise that would need to be effectively utilized in the management of interest rate risk. They also come with associated risks, costs and barriers for the desired results. Community banks should continue to exclude AOCI from capital measures as they are currently required to do today.

There are other elements to the proposed Basel III requirements, including mortgage servicing assets, deferred tax assets, capital conservation buffers, new risk weights, trust preferred securities and subchapter S bank considerations, that need further analysis and consideration.

Remaining on Basel I would more accurately align community banks and their regulatory capital with the type of assets they hold and the relationship model they follow.

Please give consideration to exempt community banks from the Basel III proposal and allow them to continue to operate under the Basel I capital framework. This will allow community banks to operate under the relationship-based banking model which has served communities in this nation for many decades.

Thank you for your time and consideration.

Sincerely,

Stephen A. Meyers
Chairman/CEO