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October 22, 2012

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

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219
regs.comments@occ.treas.gov

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

I would like to keep this short and to the point. I strongly oppose the adoption of the current Basel III capital proposals. I am the CEO of a \$630 million community bank who takes great pride in knowing that my community is better because of what my bank has been able to do for our community. It is a symbiotic relationship that has also helped my institution prosper and be one of the leading employers in our community. The current proposals would undermine our ability to "fill the breach" for our community in this current economic environment.

Specifically, we oppose the proposed capital standards on the following grounds:

- The elimination of the ability to include trust preferred securities in our calculation eliminates \$15 million or roughly 20% of our current capital over the 10-year phase-out period. With essentially no capital market for community banks currently, this equates to roughly \$120 million of lending we would forego due to our inability to leverage this current capital base. It is contractive to the economic development of my community.

- The inclusion of gains and losses in our current asset base (Other Comprehensive Income or OCI) will cause great fluctuations in our capital based on the Basel calculations. Over the past 5 years alone, we have roughly $17 million in fluctuations because of this. We feel as though this risk is managed and our securities have performed as expected. Don't infringe on our ability to lend because of this ruling. It should be noted that as rates go up is exactly when a negative OCI accounting treatment could impair capital – presumably rates could be rising because of a stronger economy and we would be losing our ability to lend at the same time! I should note we consider ourselves adept at risk management and have been able to maintain 13+% return on equity every year for the last decade obviously through very turbulent economic times.

- With the variety of risk weightings being introduced for different loan classifications, the proposals are trying to moderate certain types of lending, especially mortgage and construction lending. These risks are better controlled and monitored by the examination process and an adequate allowance for loan and lease loss (ALLL). All banks are not equally capable of risk management and therefore should not have the same capital standards for the types of lending outlined in the proposals. "One size does not fit all."

- The Basel III calculations will add an additional regulatory burden to already overburdened community banks. We anticipate the coding and calculation needed to do this will cost us hundreds of hours a year with no benefit.

If you do not truly want a community banking sector, just please say so. The current "death by a thousand cuts" approach to overregulating community banks will accelerate the demise of this very important segment of job growth. The Basel III proposals represent a "large gash" in the thousand cuts analogy.

The proposals are intended for large international banks and not for community banks. Please look closely and examine whether imposing these standards on community banks would have done anything to prevent the financial crisis – they would not have!

Banking, and a community bank such as mine, is at a crossroads. Having to compete for capital across all industries – not just financial services – makes the continued, long-term attraction of capital to banking tenuous at best. What, from a regulatory perspective, strengthens the capital base of banks actually detracts from investors wanting to put capital into banking. The returns going forward are just not there for either new investors to jump in or existing shareholders to stay in. Please consider this unintended consequence of this proposed ruling.

Sincerely,

Jeffrey M. Szyperski

Jeffrey M. Szyperski
Chief Executive Officer
Chesapeake Bank

JMS:sld