CBC
COMMERCIAL BANKING COMPANY

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October 16, 2012

The Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
regs.comments@occ.treas.gov

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve Bank
regs.comments@federalreserve.gov

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@fdic.gov

Re: Proposed Basel III Capital Regulations

Gentlemen:

Full implementation of the recently proposed Basel III Capital Regulations on community banks will be troublesome to some, devastating to many. As a typical small community bank, Commercial Banking Company has weathered one of the worst economic periods in the history of our country. Now that we have finally determined that survival is a realistic option, these recommendations will potentially negatively impact capital to the point that our company is now considering redefining our business model and worry that we cannot continue to serve many of the needs of our local communities.

Available For Sale Gains and Losses Requiring the inclusion of unrealized Available for Sale (AFS) gains or losses in regulatory capital is contrary to prudent Asset Liability Management. In this period of weak loan demand the asset side of our balance sheet is over-weighted with liquidity which is typically invested in securities. Banks like us cannot afford to have this potential drain on capital given the likelihood that rates will rise in the future forcing the recognition of those resultant losses through regulatory capital. One option would be to reclassify the securities as Held to Maturity (HTM), which would severely limit our liquidity and the use of the portfolio as an asset-liability tool contrary to regulator preferences. Another option and one that our bank would seriously consider is to reduce that risk by shrinking the bank, discouraging deposits and ultimately lowering the liquidity that is held in the investment portfolio. This would clearly have a negative impact on credit creation going forward.

Real Estate Risk Weighting Commercial Banking Company, like most community banks, is one of the last viable sources of mortgage loans for rural America. Despite the low rates and difficulty of obtaining low cost long-term match funding to make these loans, we continue to meet the needs of this segment. But doing so going forward will be almost impossible if the proposed risk-weights for mortgage loans continue in its proposed form. Many rural loans do not quality for secondary market consideration due to such things as a lack of comparable sales, associated house and acreage issues, etc. Our bank has run a test to determine capital impact on our current portfolio under the new proposal and it has the chilling impact of lowering our Total Risk-Based Capital Ratio by 588 bps. The recommendation before our Board at this time is to be prepared to eliminate home mortgages as part of our permanent loan portfolio.

We encourage your serious consideration in eliminating these proposals for community banks. The small banks in this country did not create the problems resulting in the collapse of the real estate market and near collapse of our financial systems. If it is appropriate to address capital issues within our industry it should be limited to those banks which have been part of the problem and whose size can create serious systemic risk to the financial system therefore justifying more stringent capital requirements.

Sincerely,

Charles A. Beard
President & CEO