CANTON STATE BANK

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TOMMY W. LAY
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September 25, 2012

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

Re: Proposed Basel III Capital Rule

Dear Mr. Feldman:

This letter is written to express my opinion of the proposed new Basel III capital rules for banks. Let me start by stating that strong capital formation and retention is necessary to preserve a bank in troubled times. If it were not for the strong capital level held by our bank, generated and retained from years of profitable operations, survival during the most recent economic events would have been much more difficult. Having suffered through these tough times gives me a firsthand understanding of the importance of a strong capital position.

However, the proposed Basel III rules will make the profitable operation of our bank much more difficult and frankly, profitable operations is the ONLY way for a small community bank to generate capital and remain independent. There are a number of issues, many more than can be articulated in a single comment letter, which cause great concern with this proposed new capital rule. The following bullet points are just some of the issues that Basel III creates. These items will reduce the ability of our bank to operate in a profitable and efficient manner, reduce our ability to provide the lending resources that our community needs, and have further negative impact on the economic future of our country.

- Restricting the definition of capital at this point in time will have a negative impact on lending and investment. Inclusion of non-recognized gains and losses in the securities portfolio adds volatility to capital at a time when capital certainty is needed.

- The creation of additional measures of capital is confusing and unnecessary. This proposal creates 4 separate measures of capital. It is not possible to look at the balance sheet on any given day and know if the bank meets each of these capital measures. The measurement of adequate capital should be easily obtained.

- Increased risk weighting for residential mortgages will reduce the availability of credit and limit the availability of junior mortgage loans and loans that do not fit the "typical" mortgage definition.

- Lack of a grandfather clause will require reassessment of the entire loan portfolio to determine what risk weighting to assign, costing time and expense.

- Assessing a risk weight to a loan at its origin and not adjusting the assessment as payments are received does not make sense. Although there is no desire to increase the monitoring requirements, if there is a penalty for a higher loan to value ratio, then the penalty should decrease as the loan to value is reduced.

- Introducing new Basel rules at the same time that regulators are looking at altering the calculation of APR and high priced mortgages will further reduce lending. If lenders are not able to increase the price of a loan due to higher capital requirements, then they will decide that the cost of offering this type of credit is too high and they will restrict lending.

- Increased risk weighting of past due and non-accrual credits injects the capital costs of a delinquent credit into the collection decision. If it looks like a credit will become delinquent, bank management will push to move the credit rather than to work to remedy the situation.

- Removal of deferred tax assets from the capital calculation will result in less capital coverage and a shift away from GAAP accounting, will encourage banks to look for short term income solutions in order to recognize the deferred tax asset, and as a result of the lower level of capital will further reduce lending.

Generally, the new Basel III proposal is a negative for not only the banking industry, but for the American economy as a whole. There needs to be a simpler method of recognizing that managing a company for the long term requires that profits be generated and retained in good times as a buffer for when times are bad.

Sincerely,

Tommy W. Lay
President
NMLS #442031