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GREGORY R. SHOOK
President and Chief Executive Officer

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

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[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

Our bank is a mutual bank formed in 1851 and I am the 17th President. Today we continue to operate in the best interests of our community and offer 10% of our net income to non-profits in our market area. We are very tuned into local customers both business and personal. Our $300 million bank has average capital of almost 13% but would under this proposal have to manage our growth and slow down our assistance if it passes as drafted. Building of capital does not reflect the improvements to the economy that comes from deployment of capital. We have enormous liquidity and are desperately trying to lend it to qualified applicants.

Basil III should not be applied to banks our size and should be applied to only the largest conglomerate banks that today still operate with enormous derivatives and continue to pose a risk to the financial system. They have 80% of the deposits yet community banks like ours have 80% of the small business loans. Further when you look at their loss ratios for residential loans you will notice that their underwriting was aggressive, speculative and did not offer sound fiduciary advice to their clientele. Community Banks should continue to operate under Basil I. Our business should be bifurcated from the Investment Banks. (more)

On multiple levels each piece of the proposal both the numerator Basil III and the denominator (standard approach) equal new regulator capital are problematic and burdensome particularly as margins are squeezed – there will be no capacity for risks at all.

I respectfully ask you to exempt smaller community banks form Basil III and the Standardized Practice NPR.
Continue to exclude Pension OTTI from regulatory capital, which is a pre-paid asset, similar to when banks had to prepay the FDIC insurance assessment, over time it will be expensed, much like any prepaid asset – it should not be excluded from capital. Our frozen pension plan would cost $1.6 million in capital overnight.

The risk weighting should be exempt by reverting back to Basil I. The regulatory accounting systems, reporting systems and individual loan checks and balances would lead to less lending and compliance burdens. There are numerous other issues such as mortgage insurance not being allowed for first time home buyers for their loan to value ratio. The risk weighted proposed rule is overly onerous and complicated.

Please separate the community banks that have run their businesses appropriately from the unintended consequences of trying to get conglomerate banks to be less of a burden on the system.

Sincerely,

Gregory R. Shook
President & CEO