October 12, 2012

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

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

We appreciate the opportunity to comment on the Basel III proposals. We are a $600 million community bank with seven branches in Springfield and two branches in Champaign, Illinois. We are regulated by the Federal Deposit Insurance Corporation.

We are strongly opposed to the imposition of Basel III capital rules on community banks. Basel III was originally designed to prevent another financial crisis and to only apply to the largest, systemically important, and internationally active banks. Community banks did not engage in the reckless behavior that contributed to the financial crisis and subsequent economic downturn. Community banks have lower risk profiles and less complex business models. They do not have the knowledge or expertise to engage in the same capital volatility mitigation activities such as interest rate derivative, swap, option and futures contracts. The one-size-fits-all approach to the capital standards and asset risk-weights in the NPRs will be an onerous regulatory burden that will ultimately penalize community banks and negatively impact the communities they serve.

Implementation of the capital conservation buffers for community banks will be difficult to achieve under the proposal. Many community banks will need to build additional capital balances to meet the minimum capital requirements with the buffers in place. Community banks do not have ready access to capital. The only way for community banks to increase capital is through the accumulation of retained earnings over time. If the regulators are unwilling to exempt community banks from the capital conservation buffers, additional time should be allotted in order for those banks that need the additional capital to retain and accumulate earnings.

Imposing distribution prohibitions on community banks with a Subchapter S corporate structure conflicts with the requirement that shareholders pay income taxes on earned income. Those banks with a Subchapter S capital structure, such as ours, would need to be exempt from the capital conservation buffers to ensure that their shareholders do not violate the provisions of the Internal Revenue Code. We feel that the capital conservation buffers should be suspended during those periods where the bank generates taxable income for the shareholder.

The proposed risk weight framework under Basel III is too complicated for community banks. Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks who offer these loan products to their customers and deprive customers of many financing options for residential property. Many community banks will either exit the residential loan market entirely or only originate those loans that can be sold to a Government- Sponsored Enterprise (GSE). Second liens will either become more expensive for borrowers or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures. Furthermore, community banks will be forced to make significant software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine the proper risk weight categories for mortgages.

We feel that community banks should be allowed to continue to exclude accumulated other comprehensive income (AOCI) from capital measures as currently required. AOCI captures unrealized gains and losses on investment securities and can be very volatile depending on the nature of the community banks' investment portfolios and changes in the interest rate environment. Community banks will need to conduct extensive sensitivity analysis of their portfolios to completely assess the potential impact of the inclusion of unrealized gains and losses on their minimum regulatory capital levels. The impact on capital will surely be exacerbated by the fact that interest rates are at historical lows thus setting the stage for future capital level declines in an eventual rising interest rate environment.

Again, we appreciate the opportunity to comment on the proposed regulation and hope that the regulators see fit to exempt community banks under $10 billion from the Basel III regulations.

Sincerely,

/s/

Kathy Seadler
Chief Financial Officer
Marine Bank