From: Mike Lewis [mailto:mike.lewis@velocispartners.com]
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To: regs.comments@occ.treas.gov; regs.comments@federalreserve.gov; Comments
Subject: Basel III

Ladies and Gentlemen:

I am a board director of a small community bank. I am also a shareholder of this particular bank. I have a good understanding of economics, the geopolitical environment, this industry and its relation to the overall economy. I have taken the time to research and study the effects of regulations from various documents and sources of whom I respect. I have also lived through and survived several business cycles. I also understand and respect the need for appropriate financial industry regulation.

That being said, I have serious objections to the proposed Basel III capital requirements. I understand that currently the OCC, the FDIC, and the Federal Reserve all have these proposals out for comment prior to Monday, October 22, 2012.

This accord is an international agreement designed to improve capital levels in all banks. Interesting given that industry capital levels are at all time highs in the US. By original design, the thinking was that this proposal was only going to be applicable to banks over $10 billion in size. How this was overlooked by the architects of the agreement falls short of disappointment to say the least. To the best of my knowledge, most, if not all other countries, do not have a community bank industry like the one that exists, ***currently***, in the United States. That difference makes it highly undesirable, unworkable, and untenable to adopt a one-size-fits-all capital strategy and compel implementation in this country. The ability to continue best practices and maintain financial soundness of community banks will create unintended consequences, a few as noted: 1) severely hurt the consumer; 2) freeze any potential hiring; 3) cause current employees to lose jobs; 4) put massive unwarranted financial pressure on all community banks driving all financial services to just a few large institutions considered "to big to fail." I cannot see one instance how this could be good for the consumer and the already fragile job market. Our community banks have been historically the lifeline of our communities helping make this country what it is economically today. Like in the movie It's a Wonderful Life, this would be giving Mr. Potter control of all the banking in the community. Fictional, but hopefully will not become a reality with Basel III!

This proposal is clearly going to require more common equity capital for the community banking industry. At the same time, the requirements are going to make it much more difficult for the industry to generate earnings in an already low margin environment. The unintended consequence of this will steer investors, principals and talented employees away from the industry.

Apparently international banking regulators are concerned about capital levels. So, their solution is to make capital more difficult to acquire, restrict the definition, and make the computation of risk weighted assets exponentially more complex.

You should understand, for large and small banks, the accuracy of all the numbers required for the Basel III capital computation is going to be in inverse proportion to the complexity of the computation. Not only will this deter new capital into the industry but it will also add additional compliance expenses on top of an already incredible burdensome regulatory environment. Even well managed banks will have a hard time justifying the massive additional cost associated with Basel III on top of all the other compliance costs including the well intentioned but flawed Dodd Frank act. One then can only question weather this additional burden and expense is worth the cost of harming the institution's financial condition, the forced transfer of manpower from focusing on servicing the customers into non productive compliance and finally the risk of capital. As I mentioned, regulation is needed yet unnecessary and burdensome regulation is not. There is a fine line between keeping our institutions sound and burdening them to the point of causing them to potentially deteriorate into "non profitable organizations."

Several of these requirements will reduce smaller community banks capital ratios by as much as 400 basis points requiring every bank to raise capital in an already tough environment. Topped with painting the potential investment with the higher risks and costs Basel III will likely result in limited fresh capital forcing many banks to exit unfortunately with limited options to do so because of the very rules forcing them out. These international rules were designed for large multinational banks, yet they offer no relief for the smaller, significantly less complex banks.

The new requirements for risk weighting real estate loans into category 1 and 2 and by loan-to- value percentage are going to necessitate massive, labor intensive and expensive work in management information systems.
The requirement that unfunded commitments be included in the risk weighted capital computation is going to drive up the cost and complexity of motrgages, home equity lines of credits and commercial lines of credit.

Basel III is also going to restrict how much home loan servicing rights a bank can retain as a percentage of its core capital. The value of home loan servicing can vary sharply. When the perception exists that rates are falling the value of these rights decreases as folks conclude that the cash stream will stop because of refinancing to lower rates. The value of servicing depends entirely on the life expectancy of the loans. Bottom line is that banks regulated by Basel III will retain less servicing.

So, what is the likely state of the community banking industry, post Basel III implementation and some of the additional unintended consequences not mentioned above? From this investor, director and member of the community we serve:

Basel III will vastly increase the number of community banks that need to be sold,
Basel III will decrease the universe of potential buyers of said banks (at least within the community bank industry),
Basel III will diminish the attraction of community bank stocks as a viable investment,
Basel III will put more pressure on the industry to increase capital, yet at the same time, make it more difficult to do so
Basel III will force proposals onto small banks that are not applicable

Basel III will divert talented people out of the industry or force layoffs (yes, ***more*** unemployment). Those who continue to remain will be forced to shift from the productive core business of serving the community into prisoners of compliance
Basel III will force consumers to leave the community banks driving them to the large regional or national banks and mortgage companies. For the most part, the state of our banking system today is due to a large part by these very few institutions!
Basel III will increase the complexity and expense of bank lending
Basel III will increase the regulatory burden to grow disproportionally relative to the size of the community banks, and
Basel III will diminish the availability and accessibility of bank credit, in some cases even eliminated, especially at a time when more is needed.

But, what you as our bank industry regulators hopefully will realize is that there is a tremendous disconnect between the macro-economic aspects of banking on a national and global scale and the micro-economic aspects of community banking in small, medium and even large cities in America. Failure to recognize that difference is going to have a material and negative impact on community banking, and even more importantly, our communities at large!

There are many actions and solutions, in my opinion, in addressing the concerns of small community banks in relation to how Basel III adversely effects their ability to conduct business and even survive. The simple solution is for banks $10 billion in size or greater that fall under the compliance of Basel III as originally thought as the purpose of the new regulatory law. Certainly exemptions and exceptions for smaller banks across the board are necessary. Short of this, many concerns must be addressed granting relief for the sake of survival of what I believe is the foundation of a strong financial system, the smaller community banks. I believe that individuals and small businesses across America will unanimously agree. Large corporations and financial institutions are important, necessary and grab most of the headlines, yet it is the individuals, small businesses and local community banks that are what makes this country great. Please give this serious consideration and the unintended consequences Basel III causes as this piece of financial regulation marches forward.

I respectfully appreciate your time, your concerns and your consideration on taking action and may God continue to bless America!

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