

From: Howard Schaan [mailto:hschaan@gondtc.com]
Sent: Wednesday, August 08, 2012 9:38 AM
To: Comments
Subject: Basel III

Dear Sirs:

I am writing concerning the proposed capital rules under Basel III. The one item that concerns me the most is inclusion of AOCI in the calculated capital requirements. My bank has consistently ran with a very low loan to deposit ratio. (35% to 45%) We therefore have a large portion of our assets in very secure government bonds. We rarely sell any of these bonds prior to maturity, but we have often seen AFS gains or losses of over a million dollars. While we are currently sitting with a large gain, this can easily turn into a loss when interest rates spike. Certainly we would be considered very safe by having such a large percentage of our assets in high quality government bonds, but any rapid increase in rates would cause our capital ratios to fall quite dramatically. A 2 to 3 percent rise in rates could very easily cause a \$2,000,000.00 drop in our capital and the bank would be the same bank and operate the same way both before and after the rate change. It does not make any sense to include the market loss in capital ratios when 99% of the bonds will be held to maturity and paid out in full. Including AOCI in capital requirements makes no sense for a small community bank like ours. I would recommend that small community banks be exempt from the Basel III requirements and failing that, drop the provision of including AOCI in required capital ratios.

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