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October 19, 2012

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
5510 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. Basel III was created to apply to the largest banks and not community banks. Community banks have not engaged in the highly leveraged activities that have severely depleted capital levels of the largest banks. This depletion created widespread panic in financial markets. Community banks operate on a relationship-based business model and they are specifically designed to service their respective communities, even while larger banks retreat. The proposed Basel III changes would seriously impact community banks as well as the Bank of Springfield. **It is my opinion that community banks should be allowed to continue using the current Basel I framework for computing their capital requirements.**

After careful review of how it would affect Bank of Springfield, it has become painfully clear that not only would this negatively impact the bank's existing capital structure, but sincerely hinder any future growth and lending within our community. At my bank, for instance, this would mean that our Tier 1 Ratio would decrease from 10.08% to 8.59%. In addition, our Total Capital Ratio would decline from 11.07% to 9.51%. Our Total Risk-Weighted Assets would rise from $584.7 million to $670.6 million. **The Basel III changes are equivalent to an increase of $85.9 million in our Total Risk-Weighted assets without lending any additional funds. This would require an increase in capital of over $10.4 million; which correlates to two years of net earnings for my bank.**

In addition, the Allowances for Loan and Lease Loss provision should not be capped at 1.25% of assets. The Allowances for Loan and Lease Losses should be included in tier 1 capital since it does represent the first line of defense against capital-absorbing losses. Furthermore, we believe that the phase out of Trust Preferred Securities conflicts with the Collins Amendment, which provided an exemption for Trust Preferred Securities that were issued before May 19, 2010. **Due to the proposed changes, the bank's holding company need to replace $8,000,000 in Trust Preferred Securities. Our ability to replace the Trust Preferred Securities in the current capital raising environment will be difficult at best and may not even be possible.**

The higher risk-weight on balloon notes would also discourage us from making residential mortgages by moving from 50% to 150% risk-weight based on loan-to-value, terms, and amortization. With the Basel III changes, my bank's risk-weighted exposure would increase by $71.2 million for loans moving to the 150% category and another $6.6 million for loans moving to 200%. Combined exposure for my bank would be an additional $77.8 million in risk-weighted residential loans. **The change is equivalent to doubling my bank's total residential risk-weight exposure!**

It will also affect the relationships that community banks have with their local Federal Home Loan Bank. Based on the implied risk-weight changes on risk-sharing mortgage loans, the 120 day exclusion would be eliminated and that portion of the premiums earned will be treated as off-balance sheet guarantees on all secondary market loans including FHLB. **Based on the proposed changes, Bank of Springfield would increase their risk-weighted assets by $1.8 million.** In addition, the bank has $23 million in credit-enhancing loans that have been sold to Federal Home Loan Bank. Since the proposed changes in Basel III will not grandfather existing credit-enhancing mortgage pools, additional capital requirements will deter Bank of Springfield from participating in these products now and the future. Fewer community bank competitors will allow large banks to further dominate the market and reduce the number of choices for American consumers. Therefore, the special functions and purposes of FHLB products should be maintained and be exempted from consideration.

Furthermore, the proposed changes for mortgage servicing rights will significantly decrease capital in community banks that have a large retail mortgage operation that retain servicing rights. **For instance, at the Bank of Springfield, we would be negatively impacted by a reduction in capital of $531,000 based on a fair value of $5.3 million in mortgage servicing rights.** Community banks do a superior job of servicing loans and are much more responsive to borrowers who need help to resolve problems. This change should be abandoned as it will force community banks to sell loans with service released and; subsequently, **increase the cost of lending to consumers.**

The ironic consequences of Basel III are that a bank would carry less risk exposure if they made unsecured loans instead of residential loans. Surely this is not the intention of the Basel III implementation and warrants serious reconsideration. The negative impact of a lack of prudent lending and proper collateralization may counter the backbone of the regulatory actions that prompted the Basel III initiative.

Not only will Basel III reduce our ability to service our communities, but accelerate the depreciation of home values nationwide. Basel III has the potential to bring catastrophic changes to the economy as community banks find that the risks outweigh the benefits to offer any residential products to their customers. Imposing complex and excessive capital standards will threaten the nation's economic recovery and limit lending, investment, and credit availability in Main Street communities. **The unintended consequences of Basel III may far exceed the impact of the de-valuation in home market values that started in 2008 and has continued for the past 4 years.**

Although the Bank of Springfield is community-oriented, it will be forced to reevaluate all loans that carry a higher risk-weight and require additional capital to be held in reserve. For instance, we currently have $94.4 million of outstanding lines of credit with a maturity of one year or less. With the changes proposed in Basel III, the risk weight increases by 20%, which equates to an additional $18.8 million in risk weighted assets. Other changes in risk weighted assets such as community development projects will also convert from 100% to 150% risk-weight. And, it will affect the Bank of Springfield by converting its' past due CRE, multi-family, consumer and agriculture loans from 100% to 150% risk-weight. **All of the changes combined will further hinder our ability to lend in our communities at a time when the stance of the FOMC is accommodative due to a lack of economic stability.**

Impact of Basel III Changes for Bank of Springfield Proposed vs. Current Rules ($000) 6-30-12			
Equity Capital			
	Current Rules	Basel III and Standardized	Proposed vs. Current Rules
Common Equity Tier 1 Capital	$0	$57,617	
Tier 1 Capital	$58,615	$57,617	($998)
Tier 2 Capital	$6,130	$6,130	
Total Capital	$64,745	$63,747	($998)
*Risk-Weighted Assets	$584,688	$670,653	$85,965
Average Assets	$759,881	$759,350	($531)
*Increase in Risk-Weighted Assets due to Basel III Changes			
Regulatory Ratios			
	Current Rules	Basel III & Standardized	Proposed vs. Current Rules
Leverage Ratio	7.71%	7.59%	-0.13%
Common Equity Tier 1 Capital Ratio	0.00%	8.59%	
Tier 1 Capital Ratio	10.03%	8.59%	-1.43%
Total Capital Ratio	11.07%	9.51%	-1.57%

The additional implementation of capital conservation buffers will be difficult to achieve for my bank and most community banks under the Basel III proposal and should also be eliminated. We are still recovering from the setbacks in the economy from the last several years and the reduction of interest rates has diminished bank's returns. **My bank will have to consider adding**

even more capital because of the volatility of past due loans and market valuations of our invest portfolio. This additional buffer will also curtail lending. Any additional constraints should be abandoned as they will only serve to weaken the financial system more. If the regulators are unwilling to exempt community banks from capital conservation buffers, they should give considerable amount of time for them to accumulate earnings to adjust to the new constraints.

Overall, the impact of Basel III will negatively impact the communities we serve and the thousands of customers whose lives we touch daily. It is increasingly more difficult, if not impossible, to obtain the capital needed to be competitive in an industry that is constantly examined and highly regulated. The intense scrutiny and regulatory requirements stifles competition and threatens the survival of community banks overall. I respectfully request that you reconsider the extent of the Basel III requirements for community banks as it was clearly designed for large institutions with international activities. **Community banks should be allowed to continue using the current Basel I framework for computing their capital requirements.** Basel III will only hamper our ability to serve local communities and create more uncertainty in financial markets at a time when they are the most vulnerable.

Sincerel_,

Tom E. Marantz
Chief Executive Officer
Bank of Springfield